



# Co-operation or Rivalries at Times of Crisis?

Germany, Italy and the International Economy  
1929-1936

Per Tiedtke

Thesis submitted for assessment with a view to  
obtaining the degree of Doctor of History and Civilization  
of the European University Institute

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European University Institute  
**Department of History and Civilization**

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## Abstract

When in 1929 the world economy went into crisis, a new approach to international trade and finance appeared on the scene. Characterised by bilateralism, protectionism and autarchy, this approach challenged the idea of liberal free trade. Its main proponents were Nazi Germany and Fascist Italy. This thesis is about the role of economic factors in the German-Italian rapprochement under the banner of the fascism.

The analysis looks with an institutional approach at three levels: the formulation of foreign economic policies, the implementation by governments, and the execution at the level of businesses. Not only is the bilateral German-Italian commercial relationship analysed, but also co-operation and rivalries between German and Italian government officials, economic experts and business representatives in third-party markets, as well as international organisations (especially the League of Nations) dealing with the crisis.

The thesis shows that the “Rome-Berlin Axis”, which plunged Europe and the world into the disaster of World War II, was built on economic foundations with serious cracks. Admittedly, Germany’s and Italy’s mutual economic importance increased notably, while they foreclosed their markets to former trade partners (especially the US). However, the analysis of the institutions governing the trade and its detailed structure indicate without question that this rapprochement followed no economic logic. Germany needed political support for its revisionist plans for Europe and was willing to pay for it.

Nevertheless, in third-party markets no concessions were made. Especially in Southeastern Europe and the Eastern Mediterranean, Nazi Germany harvested what Fascist Italy had sown. To increase market shares, Berlin copied foreign economic policies, developed by the likewise financially strapped Italy. Opportunities for better economic collaboration were given away. Victims of the approach can be found in many areas (e.g., chemicals, cars, artificial fibres) and especially among cross-border business endeavours. The contradictions in the economic rapprochement of the interwar ultra-nationalistic regimes clearly demonstrate the limits of economic nationalism in a globalising world.



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To my parents  
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# Introduction

## *1. Setting the Research Agenda*

Italy's most difficult commercial relationship is with Germany. We are by far the strongest competitor for the Italian industry; however, among the customers of its agriculture we remain fundamental and crucially important.<sup>1\*</sup>

It was thus that in November 1933 – Fascism had been since the Nazi seizure of power on the rise in crisis-shaken Europe – Germany's consulate general in Milan, Italy's industrial capital, summed up the current stage of their economic relationship. This thesis analyses how this seemingly paradoxical relationship, characterized simultaneously by fierce rivalries and increasing co-operation, evolved after the eruption of the crisis, developed throughout the depression, and intersected with the political rapprochement of National Socialist Germany and Fascist Italy.

In his analysis of the relationship between Fascist Italy and Nazi Germany, the British scholar Brian R. Sullivan characterised the “Rome-Berlin Axis” as a “path marked out by history”.<sup>2</sup> However, historiography under the broad rubric of the “brutal friendship”<sup>3</sup> has indicated already that the alliance of these dictators, who praised their common political features and shared expansionist destiny, was prone to mistrust. Regrettably, economic aspects have been neglected in the structural analysis of this relationship, which had fatal consequences for Europe and the world. Thus, as yet historiography has not provided an exhaustive interpretation of this alliance.

This omission is surprising because economic factors played a crucial role in interwar international relations. World War I, an unprecedented “battle of materiel”,<sup>4</sup> had shown the

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<sup>1</sup> GK Mailand to AA, 27 November 1933, PA-AA, R240.861.

\*All the Italian and German language quotes have been translated into English by the author.

<sup>2</sup> B.R. Sullivan, ‘The path marked out by history. The German-Italian alliance 1939-1943’, in J.R. Adelman, ed., *Hitler and his allies in World War II* (London, 2007), pp. 116-151.

<sup>3</sup> This interpretation of the relationship between National Socialism and Fascism was established by the classic and still-valuable study of F.W. Deakin, *The brutal friendship. Mussolini, Hitler, and the fall of Italian fascism*. (New York, 1962).

<sup>4</sup> J.R. Fear, ‘German Capitalism’, in T.K. McCraw, ed., *Creating modern capitalism: How entrepreneurs,*

world how the capacity to wage, and the potential to win a modern war, depended first and foremost on the economic might of the belligerents.<sup>5</sup> Taking into account this legacy of the Great War, it is apparent why political elites of the interwar period shared such a vivid interest in the economy.<sup>6</sup> In 1921, Walther Rathenau, a liberal philosopher of business ethics who was about to become Germany's foreign minister, famously predicted that, "it is not politics that is our destiny, it is the economy".<sup>7</sup> Already the transition from war to peacetime economies had caused many conflicts over debt and reparations. For Hans Posse, head of the foreign trade department at the German ministry of economics, and therefore of eminent importance for this thesis,<sup>8</sup> very frequently "political questions hide behind economic façades".<sup>9</sup> The 1929 eruption of the world economic crisis subsequently inspired new forms of economic "regionalism", which rose up against the idea of a globally integrated international economy. In this polarisation, even greater weight was attached to the importance of economic factors in international relations.<sup>10</sup>

While after 1929 the tendency to intertwine matters of foreign policy and foreign trade spread everywhere in the world, its proliferation in Germany and Italy bore an especially menacing character.<sup>11</sup> As the two major revisionist European powers of the 1930s, their foreign economic initiatives often engendered suspicion on the part of the guarantors of Europe's established political order. This thesis poses the question of whether there was a basis for this wariness. The answer is important not only to understand the dynamics that led to the disasters of World War II. Rather, the analysis of shared features and attempts at co-operation in Berlin's and Rome's foreign economic initiatives also helps to develop a better assessment of the nature of the two ultra-nationalistic regimes. Thereby, it deepens the

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*companies, and countries triumphed in three industrial revolutions* (Cambridge, Mass., 1997), pp. 135-184, 153.

<sup>5</sup> Cf. S.N. Broadberry and M. Harrison, *The economics of World War I* (Cambridge, 2005).

<sup>6</sup> Cf. G. Ambrosius, 'Von Kriegswirtschaft zu Kriegswirtschaft 1914-1945', in M. North and G. Ambrosius, eds., *Deutsche Wirtschaftsgeschichte: Ein Jahrtausend im Überblick* (München, 2005), pp. 289-355.

<sup>7</sup> Walther Rathenau, *Gesammelte Reden* (Berlin, 1924), p. 264.

<sup>8</sup> Hans Posse, lawyer by training, led the foreign trade department at the RWM as of 1924. He was Germany's permanent delegate at the Economic Committee of the League of Nations. Posse continued his career during the Third Reich and became secretary of state at the RWM. For his role in the international organisation see part II. Posse also published on the German-Italian economic relationship. See, for instance, his piece in G. Dobbert, ed., *Die faschistische Wirtschaft: Probleme und Tatsachen* (Berlin, 1934).

<sup>9</sup> Quoted in R.M. Spaulding, *Osthandel and Ostpolitik: German foreign trade policies in Eastern Europe from Bismarck to Adenauer* (Providence, 1997), p. 108.

<sup>10</sup> J. Osterhammel and N.P. Petersson, *Geschichte der Globalisierung: Dimensionen, Prozesse, Epochen* (München, 2007), pp. 77-83. C.H. Feinstein, P. Temin and G. Toniolo, *The world economy between the world wars* (Oxford, 2008).

<sup>11</sup> Cf. M. Mazower, *Dark continent: Europe's twentieth century* (New York, 1999), pp. 104-137.

existing research on the German-Italian relationship in the interwar period, which has neglected the analysis of economic factors.

The paucity of research into the German-Italian economic relationship is surprising, moreover, because contemporary observers were well aware of the close contacts they shared in the economic sphere, and how often this led to rivalries. Elisabeth Monroe, a former League of Nations staff member who travelled the region with a Rockefeller fellowship in 1937, concludes that

To all appearances, Italy's aspirations clash at every turn with the German advance [...]. Both powers envisage the same objectives. Both wanted Austria as a satellite; both want to mother Hungary; both want Balkan influence and Balkan markets. In view of the rising tide of German trade not only in Greece and Turkey but in Spain, Egypt, and as far east as Iran, there is every possibility that both will one day want Mediterranean supremacy also. Logically, their alliance should be uncomfortable. Yet it seems to prosper.<sup>12</sup>

It is the aim of this thesis to treat this paradoxical situation, and offer a systematic analysis of patterns of collaboration and rivalries in the German-Italian economic relationship between the onset of the world economic crisis and the proclamation of the "Rome-Berlin Axis". This evaluation will help to describe and explain the construction of the alliance's economic foundations, as well as the later deficiencies of the "Axis" at war. Thereby, it addresses a gap in research that has been identified by the more extensive literature that exists for the period of World War II.<sup>13</sup>

That is not to say that international history has not dealt at all with the German-Italian relationship in the early 1930s. It has been studied, however, only within the narrow focus of "classical" diplomatic history, and even eminent followers of that approach have admitted that there was more that constituted the "Axis" than the official diplomacy of Hitler and Mussolini.<sup>14</sup> Therefore, the analysis builds methodologically on recent advances in the field of Transnational History. It will integrate comparisons, perceptions and transfers of economic institutions such as regulatory laws, commercial contracts or protectionist instruments in order

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<sup>12</sup> E. Monroe, *The Mediterranean in politics* (London, 1939), p. 238. Monroe had written one of the few English-language studies on international affairs in the Mediterranean at that time. Most of the contemporary literature on the topic is in Italian. This highlights the importance of the Mediterranean for Italy's foreign policy.

<sup>13</sup> See, for instance, H. Woller, 'Hitler, Mussolini und die Geschichte der "Achse"', in L. Klinkhammer, A.O. Guerrazzi and T. Schlemmer, eds., *Die Achse im Krieg 1939-1945: Politik, Ideologie und Kriegführung 1939-1945* (Paderborn, 2010) pp. 34-47, 34.

<sup>14</sup> J. Petersen, *Hitler-Mussolini. Die Entstehung der Achse Berlin-Rom 1933-36* (Tübingen, 1973), p. XVII.

to piece together the fabric that constituted the economic “Axis”. Moreover, the thesis is inspired by Transnational History’s dedication to the explanatory factor of space. The German-Italian economic relationship is analysed not only with regard to the German territories or the Italian peninsula; it also looks at those spaces outside the respective national territories where their foreign economic interest interacted. In concrete terms, this means that the analysis also examines third-party markets equally important for Germany’s and Italy’s economy and foreign policy (in particular Southeastern Europe and the Eastern Mediterranean), and on the international arena where Berlin and Rome interacted at the League of Nations’ economic and financial organisations.

What is more, the project is in line with the increased public interest in economic history since the 2008 economic crisis. At the height of the crisis, the International Monetary Fund stated “history can be a useful guide to understanding the present”.<sup>15</sup> Nonetheless, Werner Abelshauser, one of the doyens of German economic history, warns us not to draw direct conclusions for our time from the events of the 1930s. Abelshauser suggests that the “art of learning from history” is achieved by “reducing (economic-) historical effects to its fundamental preconditions and processes” in order to identify “institutional settings (ways of thinking and acting, rules of the game)”, which can reasonably be compared.<sup>16</sup>

For the current understanding of Europe as an economic area – its debates on divisions between “the north” and “the south” or the “core” and the “periphery”<sup>17</sup> – the thesis offers historical insights on how the economic map of Europe has changed, especially in the aftermath of economic crises over questions of surplus and debt. In addition, it provides numerous examples how ineffective policies inspired by economic nationalism performed in regional economic co-ordination. For one of the crucial questions of economic integration in the twentieth century (which continues to be relevant in the twenty-first century), whether national economies should strive for an alignment with an open and global economy or create regional economic blocs,<sup>18</sup> the thesis offers ample evidence of the effects of the latter.

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<sup>15</sup> International Monetary Fund, ed., *World Economic Outlook. Crisis and Recovery* (Washington, D.C., 2009), p. 104.

<sup>16</sup> W. Abelshauser, ‘Aus Wirtschaftskrisen lernen – aber wie?’, *Vierteljahrshefte für Zeitgeschichte*, 57 (2009), pp. 467-483, 480.

<sup>17</sup> Cf., for instance, J. Becker and J. Jäger, ‘European Integration in Crisis: the Centre-Periphery Divide’. Paper to be presented at 17th Euromemo Workshop on Alternative Economic Policy (Vienna, 16-18 Sep 2011).

<sup>18</sup> Cf. R. Neebe, ‘Ludwig Erhard und die Globalisierungskontroverse in den Anfangsjahren der EWG’, in D. Gilgen, C. Kopper, A. Leutzsch and V. Berghahn, eds., *Deutschland als Modell?: Rheinischer Kapitalismus und Globalisierung seit dem 19. Jahrhundert* (Bonn, 2010), pp. 143-170, 145.



To the responses to economic crisis can be added the patterns that characterised the interwar period and that continue to concern us. According to Kuczynski, the interwar years were marked by a global power shift (the US replacing the UK as the world's leading power), and the long-lasting and often difficult-to-gauge consequences this entailed for the international economy; a new dimension of unemployment; new forms of collaboration between science, business and the state; and the development of corporations into monopolies.<sup>19</sup> These patterns continue to dominate current debates, whether it is the global power shift to Asia (and namely China), new dimensions of youth unemployment in the European South and elsewhere, an already-strong and still-growing concern of states to adapt educational systems to the needs of the economy or the public commitment of hi-tech pioneers from the Silicon Valley for monopolies.<sup>20</sup>

## ***2. Time Frame***

The investigation period 1929-1936 stems from several considerations, both political and economic. As the precise dating of the world economic crisis is contested, and the reasons for the eruption have a long history, the applied caesura of 1929 is not intended as any kind of cut-off point. Rather, it is meant to be a type of metaphor for the institutional changes driven by the world economic crisis, which dramatically changed economic relations. When necessary, the analysis investigates the 1920s and even reaches back to the end of the nineteenth century. Furthermore, the conclusion offers an outlook on the development of the German-Italian relationship in World War II.

In 1929, decisions with such long-range impact were taken that their effects could be felt long after the political turning point of the Nazi seizure of power in 1933. For instance, it was in 1929 that Rome decided to boost agricultural production not only in wheat and livestock, but especially in fruits and vegetables. This decision was not an expression of an early autarchy plan,<sup>21</sup> like the wheat production initiative of 1925, heroically labelled

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<sup>19</sup> J. Kuczynski, 'Die Zwischenkriegszeit. Ein neuer Kapitalismus nimmt Gestalt an.', in K. Borchardt, C. Buchheim, M. Hutter and H.D. James, eds., *Zerrissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge* (Baden-Baden, 1994), pp. 357-365.

<sup>20</sup> P. Thiel, 'Competition is for Losers', *The Wall Street Journal*, 12 Sep 2014, available: <<http://online.wsj.com/articles/peter-thiel-competition-is-for-losers-1410535536>> (retrieved 16 Jul 2015).

<sup>21</sup> This has been argued by commentators of the fascist economy with a too-narrow, nation-state centred perspective. See, for instance, 'Der deutsch-italienische Handelsvertrag', *Deutsche Allgemeine Zeitung*, 13 May 1930.

*battaglia del grano* (the battle for wheat); on the contrary, the stimulated output of Mediterranean fruits and vegetables was not intended to be sold on the Italian market. It was commissioned to be exported north of the Alps, to its biggest market, Germany, in order to increase export revenues and to protect the lira which was throughout the period of investigation under pressure (see Table 1).

Table 1: Italy's gold and foreign exchange (*Divise*) reserves (in million Lire) 1927-35

1927	1928	1929	1930	1931	1932	1933	(Sep) 1934	(Sep) 1935
12,105.9	11,070.8	12,341.2	9,624.3	7,796.5	7,144.0	7,396.7	6,240.3	4,643.9

Source: State Department, 19 Dec 1935, FDR Archives, Morgenthau, 267 (referring to Banca d'Italia statistics).

The decision to give impetus to agricultural sales on the German market had several other long-lasting implications for the German-Italian economic relationship. The Italian industrialists feared that a general alignment with the German economy would not only boost sales in agriculture, but also threaten their shares in domestic and third-party markets for industrial products. At the same time, on the other side of the Alps, German agricultural pressure groups stirred up nationalistic sentiments against imports of Italian agricultural goods, and tried to benefit from protective measure by the German government equally concerned with falling foreign exchange reserves.

This is not to say, however, that political events had no influence on the choice of the investigation period. It is undeniable that "1929" was also a political event. With the premature death of Germany's Foreign Minister Gustav Stresemann on 3 October 1929, a German foreign policy dedicated to European reconciliation quickly lost ground. Moreover, in Weimar Germany after the death of Stresemann the executive was henceforth no longer determined by the parliament, but by presidential decree.<sup>22</sup>

The political element is crucial for the definition of the end mark of the investigation, 1936, which primarily follows the official proclamation of the "Rome-Berlin Axis".<sup>23</sup> Although it represents a minority opinion among historians, McElligott, in his recent

<sup>22</sup> S. Dengg, *Deutschlands Austritt aus dem Völkerbund und Schachts "Neuer Plan"* (Frankfurt a.M., 1986), p. 14.

<sup>23</sup> A detailed analysis of the German-Italian economic relationship between 1936 and 1957 exists, and raises important questions for the time period under investigation in my thesis. See M. Rieder, *Deutsch-italienische Wirtschaftsbeziehungen. Kontinuitäten und Brüche 1936-1957* (Frankfurt a.M., 2003).

reinterpretation of the history of the Weimar Republic, goes as far as to set 1936 as an endpoint of his description of the first German democracy. Of course, he does not deny the fact that Nazi Germany was a dictatorship as of 1933 and the ratification of the Enabling Act. Yet, Hitler's rule was carried out within the bounds of the Weimar constitution, and was very similar to the authoritarian presidencies of Franz von Papen (1932) and Kurt von Schleicher (1932-1933), who ruled using Article 48 and the emergency powers it conferred.<sup>24</sup>

However, economic considerations back this choice, too. As I will show in detail, in 1936 a contested re-structuring of the German-Italian trade was concluded, which meant a substantial decrease of global integration, especially with respect to the US economy, and an increase in mutual relevance as trading partners, with Germany far-and-away Italy's major trading partner.<sup>25</sup> Moreover, in 1936 the German economy was completely submitted to rearmament, while between 1933 and 1936 national objectives prevailed that had characterised the economic governance of Weimar Germany.<sup>26</sup>

Two features of Italy's twentieth century economic history support the time frame. First, according to Ciocca, in 1929 an economic regime that was largely dominated by the *quota novanta* ended in Fascist Italy.<sup>27</sup> The following period, which was distinguished by the world economic crisis and national autarchy, lasted till 1936 when war preparations again changed the face of the economy.<sup>28</sup> The second characteristic is Italy's positioning within the different payments regimes, which after the collapse of the international gold standard divided the world economy into several blocks.<sup>29</sup> While initially remaining a rather exceptional case between the blocks, clinging to gold in order to safeguard its established trade relations, Italy gradually moved towards the block of countries with foreign exchange controls, consisting of Germany and many states of Southeastern Europe.<sup>30</sup> Vincenzo Azzolini, governor of the Banca

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<sup>24</sup> A. McElligott, *Rethinking the Weimar Republic. Authority and Authoritarianism, 1916-1936* (London, 2013). For a critical note on McElligott's work see B. Ziemann, review of: *ibid.*, *HSoz-u-Kult*, 29 May 2014, available: <<http://hsozkult.geschichte.hu-berlin.de/rezensionen/2014-2-146>> (retrieved 16 Jul 2015 ).

<sup>25</sup> Cf. Z. Steiner, *The triumph of the dark: European international history, 1933-1939* (Oxford; New York, 2011), p. 97.

<sup>26</sup> B.-J. Wendt, 'Südosteuropa in der nationalsozialistischen Großraumwirtschaft', in G. Hirschfeld and L. Kettenacker, eds., *Der "Führerstaat": Mythos und Realität: Studien zur Struktur und Politik des Dritten Reiches* (Stuttgart, 1981), pp. 414-428, 425.

<sup>27</sup> The *quota novanta*, as the revaluation of the Lire was labelled by the fascist propaganda, is further discussed below in chapter 2.

<sup>28</sup> P. Ciocca, *L' economia italiana nel periodo fascista* (Bologna, 1976), pp. 54-55.

<sup>29</sup> Cf. B. Eichengreen and D.A. Irwin 'The Slide to Protectionism in the Great Depression. Who Succumbed and Why?' *Journal of Economic History*, 70, 4 (2010).

<sup>30</sup> See W. Boelcke, *Deutschland als Welthandelsmacht 1930-1945* (Stuttgart, 1994), pp. 15-16.

d'Italia between 1931 and 1944, identified the year 1936 as the end of this period because the long-expected devaluation of the lira finally took place.<sup>31</sup>

These examples suffice to highlight the specific pattern of the German-Italian economic relationship between 1929 and 1936, which was constituted both by moments of fierce rivalries and growing interdependence. Thus, it is through an analysis of this crucial period that historiography moves closer to a comprehensive understanding of the foundations of the "Rome-Berlin Axis". In 2010, a major edited volume on various dimensions of the "Axis" at war came to the conclusion that the "alliance in World War II has a long background, which, indeed, has been equally neglected".<sup>32</sup> Ponzi argues in a similar vein when he describes Germany's foreign economic policy between 1933 and 1939 as still open to interpretation.<sup>33</sup> Last but not least, Clavin contends that the interesting documentation of the League of Nations, which is also used in this thesis, gives no reason to neglect the years till 1936, as has happened so far.<sup>34</sup>

### ***3. Historiography of the German-Italian Economic Relationship***

To date, a systematic attempt to explain the German-Italian economic relationship in the world economic crisis has not been made. This is quite remarkable, given that this particular relationship of interwar Europe has received much attention in historiography, in an effort to understand the causes of one of the great disasters of the twentieth century: World War II. This part of the introduction establishes the state of the art of research. Two broad strands have been separated according to their guiding questions. The first strand is composed of studies on the bilateral German-Italian relationship, while the second strand deals with the wider spatial dimension of this relationship.

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<sup>31</sup> Azzolini to Giannini, 22 Jun 1938, Archivio Storico Banca d'Italia, Directorio Azzolini, cart. 23, fasc. 11.

<sup>32</sup> Woller, 'Hitler, Mussolini', p. 34. In his positive review, Daniel Hedinger refers to three fruitful tasks for the study of the relationship, which my thesis intends to realise: First, the systematic integration of the early 1930s when Italy acted more independently; second, the integration of the perception of the Axis' enemies; and third, a wider spatial framework to connect the historiography of the Axis with global history. See D. Hedinger, review of: *ibid.*, *H-Soz-Kult*, 28 Feb 2013, available: <<http://hsozkult.geschichte.hu-berlin.de/rezensionen/2013-1-133>> (retrieved 16 Jul 2015).

<sup>33</sup> P. Fonzi, 'La politica economica estera del nazionalsocialismo tra il 1933 e il 1939. Un percorso obbligato', *Studi Storici*, 49, 1 (2008), pp. 51-108, 54.

<sup>34</sup> P. Clavin, *Securing the world economy: The reinvention of the League of Nations, 1920-1946* (Oxford, 2013), p.124.

### 3.1 The Bilateral German-Italian Relationship

#### “Classic” Diplomatic History of the German-Italian Relationship

Along with mainstream International History,<sup>35</sup> historiography primarily focused for many decades on the politics of Hitler, Mussolini and their diplomatic elite, while touching on economic aspects only *en passant*. The above-mentioned landmark work of Deakin emphasised the perspective of the dictators, and devoted a great deal of empirical research to the collapse of the coalition in World War II.<sup>36</sup> Ever since then, Anglophone historiography has remained highly influential (and slightly biased) in its research on the dictators<sup>37</sup> and the “Axis” in war. Mack Smith’s classic biography on Mussolini indeed did mention inconsistencies in Italy’s foreign policy, which, for instance, sent Italian troops to fight and plunder in Southeastern Europe together with the German *Wehrmacht*, and ordered at the same time the expansion of Italy’s northern fortifications.<sup>38</sup> While Mack Smith explains this and other contradictions largely through reference to the personal deficiencies of the dictators, his approach has been criticised for neglecting other social, and indeed economic, factors.<sup>39</sup> More recent contributions such as Knox’s insightful studies highlight, despite his emphasis on the poor military performance of the Axis in World War II, the importance of explaining this outcome by looking at economic factors in a longer-term perspective as well.<sup>40</sup>

A first major contribution by German historiography was Petersen’s study of the German-Italian relationship between Hitler’s seizure of power in 1933 and the official proclamation of the “Rome-Berlin Axis” in 1936. Petersen has contributed immensely to

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<sup>35</sup> For a critical survey on the past, present and future of International History, see P. Finney, *Palgrave advances in international history* (New York, 2005), pp.1-35.

<sup>36</sup> Deakin, *The brutal friendship*. Another classical study without any great interest in structural depth is E. Wiskemann, *The Rome-Berlin Axis: A study of the relations between Hitler and Mussolini* (London, 1966).

<sup>37</sup> Especially Mussolini has received constant attention up until recent times. Cf. R.J.B. Bosworth, *Mussolini* (London, 2002). Bosworth also edited the *Oxford handbook of fascism*, which was criticised for its gaps in covering the German-Italian relationship. Cf. C. Goeschel, review of: R.J.B. Bosworth, ed., *The Oxford handbook of fascism* (Oxford, 2010), *H-Soz-Kult*, 30 Nov 2011, available: <<http://hsozkult.geschichte.hu-berlin.de/rezensionen/2011-4-154>> (retrieved 16 Jul 2015).

<sup>38</sup> D. Mack Smith and M. Grendacher, *Mussolini: Eine Biographie* (München, 1983). Mack Smith’s study marked at the time of publishing also the state of the art in German historiography on the Italian dictator.

<sup>39</sup> H. Höhne, review of: *ibid.*, *Der Spiegel*, 25 Jul 1983.

<sup>40</sup> M. Knox, ‘Expansionist zeal, fighting power, and staying power in the Italian and German dictatorships’, in R. Bessel, ed., *Fascist Italy and Nazi Germany: comparisons and contrasts* (Cambridge, 1996), pp. 113-133, esp. 113. M. Knox, *Hitler’s Italian allies: Royal Armed Forces, Fascist regime, and the war of 1940-1943* (Cambridge, 2001). A similar approach, but with an even more narrow focus on military and foreign relations is offered by J. Gooch, *Mussolini and his generals: The armed forces and fascist foreign policy, 1922-1940* (Cambridge, 2007).

further investigation into the conflictive history of the “Axis” by shedding light on the conflict over Southeastern Europe and especially Austria. However, despite his doubts about the range of diplomatic history in the German-Italian case, he remained focused on the study of diplomatic sources in a crucial – but very narrow – period of the German-Italian relationship.<sup>41</sup> Torunsky traced this relationship further back in the 1920s with a study of the coalition policies of Stresemann and Mussolini. Albeit still making a contribution to diplomatic history, Torunsky underscored the importance of economic factors like, for instance, the massive Italian orders of German coal. All the same, she admitted that her attempt to provide an account of German-Italian trade was of a “fragmentary character”.<sup>42</sup>

In spite of major criticisms of diplomatic history, especially from the “Bielefeld School” of German historiography around 1980,<sup>43</sup> scholars have devoted, and continue to devote, much attention to this approach.<sup>44</sup> My project considers contributions in this field concerning relevant actors in diplomacy who actively influenced economic relations. Schlie, for example, has published a selection of diaries and correspondence by Ulrich von Hassell, Germany’s ambassador in Rome (1932-38), who was a relentless supporter of German-Italian economic co-ordination in Southeastern Europe, and who therefore is of utmost importance for this thesis.<sup>45</sup>

However, as has been shown by studies on the “parallel-diplomacy” of Herman Göring,<sup>46</sup> the embassies and “official diplomacy” were by no means the only institutions shaping the German-Italian relationship. In point of fact, Göring’s missions to Italy supported the rapprochement between the dictators. These missions were sceptically observed by the uninvolved German foreign ministry, as were his missions to Southeastern Europe to establish a German political and economic hegemony. Accordingly, Falanga’s attempt to provide an (astonishingly still-lacking) overall history of the German-Italian relationship between 1933

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<sup>41</sup> Petersen, *Hitler-Mussolini*, p. XVII.

<sup>42</sup> V. Torunsky, *Entente der Revisionisten?: Mussolini und Stresemann 1922-1929* (Köln, 1986). For a general analysis of the Weimar Republic’s approach to foreign policy, which used economic power to compensate for military weakness, see P. Krüger, *Die Aussenpolitik der Republik von Weimar* (Darmstadt, 1985), especially pp. 247-269.

<sup>43</sup> For an overview on the history of the discipline, cf. B. Simms, ‘The Return of the Primacy of Foreign Policy’, *German History*, 21, 3 (2003), pp. 275-291, 277-279.

<sup>44</sup> Cf. J. Schröder and C.A. Lückerrath, *Hitler und Mussolini: Aspekte der deutsch-italienischen Beziehungen, 1930-1943* (Gleichen, 2007). See for this approach the works of Zara Steiner on European diplomacy in the interwar period: Z. Steiner, *The lights that failed: European international history, 1919-1933* (Oxford, 2005); Z. Steiner, *The triumph of the dark: European international history, 1933-1939* (Oxford, 2011).

<sup>45</sup> U. von Hassell and U. Schlie, *Römische Tagebücher und Briefe: 1932-1938* (München, 2004).

<sup>46</sup> A. Kube, *Pour le mérite und Hakenkreuz: Hermann Göring im Dritten Reich*, (München, 2009). S. Martens, *Hermann Göring: “Erster Paladin des Führers” und “Zweiter Mann im Reich”* (Paderborn, 1985).

and 1945 on the basis of published diplomatic sources has received a great deal of criticism.<sup>47</sup> With his narrow focus, his critics claim that his study lacks coverage of the close relations at other levels of the state, the military, or the economy, all of which were constitutive for the Axis.<sup>48</sup>

Italian historiography has paid scant attention to the German-Italian relationship between 1933 and 1945 in diplomatic history. This particular relationship is covered by overall analyses of fascist foreign policy,<sup>49</sup> but explicit contributions to the study of the “Axis” are rather scarce compared with the German historiography.<sup>50</sup> One reason for this, presumably, can be found in the long-standing impact of a research perspective which was intended – in the words of one of its most influential representatives, Renzo de Felice – to keep Italian fascism “out of the shadows of the Holocaust”.<sup>51</sup> This perspective hampered attempts to write on the German-Italian relationship during the heyday of diplomatic history. This assumption is supported by the fact that a detailed analysis of the relationship between Fascist Italy and Weimar Germany exists. Scarano’s<sup>52</sup> study contributes to my thesis, as it sheds light on the “official” positions taken by diplomacy regarding the impact of the world economic crisis. From this overview of the classical diplomatic historiography of the German-Italian relationship in the interwar period, it can be seen that research has taken account of the importance of economic aspects, but has still not explained them coherently due to its narrow focus.

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<sup>47</sup> G. Falanga, *Mussolinis Vorposten in Hitlers Reich: Italiens Politik in Berlin 1933-1945* (Berlin, 2008).

<sup>48</sup> The staff of the Italian embassy in Berlin, for instance, heard about the Italian invasion into Albania from the radio. For the critique, see P. Bernhard, review of: G. Falanga, *Mussolinis Vorposten in Hitlers Reich: Italiens Politik in Berlin 1933-1945* (Berlin, 2008), *sehpunkte* 9 (2009), available: <<http://www.sehpunkte.de/2009/07/15336.html>> (retrieved 16 Jul 2015).

<sup>49</sup> Of distinguished importance for this thesis is E. Collotti and N. Labanca, eds., *Fascismo e politica di potenza: Politica estera; 1922-1939* (Firenze, 2000). The study advances the thesis that the Italian penetration of Southeastern Europe since the 1920s supported the German expansion in the same region after 1933. This thesis needs to be evaluated with respect to economic relations.

<sup>50</sup> For instance, the Italian Wikipedia entry for the “Axis”, only refers to a British historian and Petersen’s study from 1973. See ‘Potenze dell’Asse’, *Wikipedia*, available: <[http://it.wikipedia.org/wiki/Potenze\\_dell%27Asse](http://it.wikipedia.org/wiki/Potenze_dell%27Asse)> (retrieved 16 Jul 2015).

<sup>51</sup> Giuliano Ferrara, ‘Interview with Renzo De Felice’ in J. Jacobelli, ed., *Il fascismo e gli storici oggi* (Roma/Bari, 1988), pp. 3-6.

<sup>52</sup> F. Scarano, *Mussolini e la Repubblica di Weimar: le relazioni diplomatiche tra Italia e Germania dal 1927 al 1933* (Napoli, 1996).

## Studies on Bilateral Economic Relations

In contrast to the previously mentioned bias in the coverage of the German-Italian relationship in diplomatic history, German historiography has paid less attention to the bilateral economic relationship than its Italian counterpart. In general, the very controversial debate on the primacy (*Primat*) of politics over the economy or vice versa, as it manifested in German historiography since the 1970s,<sup>53</sup> has produced resentments towards the analysis of economic factors in international relations.<sup>54</sup> What is more, due to the far-reaching history and persistent patterns of economic relations, other countries (and in particular Russia)<sup>55</sup> have received greater attention from German historiography.

However, a major reference point for this project is Rieder's study of German-Italian economic relations between 1936 and 1957.<sup>56</sup> Rieder's multi-archival and multi-institutional approach is exemplary, and instructive for this thesis. However, she centers on the transition from World War II to postwar reconstruction. In accordance with Zamagni's central interpretation of Italy's economic history,<sup>57</sup> Rieder asks how Italy managed to move out of its position in the "economic periphery",<sup>58</sup> which was to a large extent constructed in relation to Germany. In asking this, she raises important questions for the study of the period between World War I and the sealing of the "Axis" in 1936, the time when the Italian perception of its position triggered a major impact on the formulation of foreign economic policies. This thesis contrasts the Italian attempt to become an "economic core"<sup>59</sup> not only in relation to the economic expansion of Nazi Germany after 1933, but also to the foreign policy of the late

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<sup>53</sup> See G.-Th. Mollin, 'Internationale Beziehungen als Gegenstand der deutschen Neuzeithistoriographie', in W. Loth and J. Osterhammel, eds., *Internationale Geschichte: Themen – Ergebnisse – Aussichten* (München, 2000), pp. 3-30, 19-22.

<sup>54</sup> See H. Zimmermann, 'Die politische Ökonomie der internationalen Geschichte', in E. Conze, U. Lappenküper and G. Müller, eds., *Geschichte der internationalen Beziehungen: Erneuerung und Erweiterung einer historischen Disziplin* (Köln, 2004), pp. 113-138, 120.

<sup>55</sup> The studies on economic relations between Germany and Russia are numerous and not very relevant for the thesis. However, there is evidence that the economic relations with the 'economic giant' in the East in the early 1930s became a central field of co-ordination because, so the German argument went, only together were Germany and Italy strong enough to be "appreciated" by the Soviet Union. Cf. K. Krüger, *Deutsche Großraumwirtschaft* (Hamburg, 1932), p. 65.

<sup>56</sup> Rieder, *Deutsch-italienische Wirtschaftsbeziehungen*.

<sup>57</sup> V. Zamagni, *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1990*, (Bologna, 2003); V. Zamagni, *Introduzione alla storia economica d'Italia* (Bologna, 2007).

<sup>58</sup> Aldcroft's major study of the European "economic periphery" in the interwar period discusses on its first page whether Italy was still part of it. Albeit citing other opinions, Aldcroft argues that Italy had just crossed the frontier due to, for instance, its armament potential. See D.H. Aldcroft, *Europe's third world: The European periphery in the interwar years* (Aldershot, 2006), p. 1.

<sup>59</sup> For a discussion of the "core"- "periphery" concept, see below, the introduction to basic concepts and methodology.



Weimar Republic, which was according to standard reference on the first German democracy an “economic version of power policy”.<sup>60</sup>

Presumably, it is because the industrialized area north of the Alps had had a huge impact on the industrialization of the peninsula that Italian historiography has made a greater effort than German historiography to study German-Italian economic relations. Caglioti examines for the period of World War I rising economic nationalism with a publicly orchestrated campaign against imported German pharmaceuticals.<sup>61</sup> Similarly, Alegi describes for the 1920 the secret plan between Italy and Germany to produce airplanes for Germany in Italy, which was hampered and sometimes even thwarted by acts in the name of national interest.<sup>62</sup> Extending the research question of these case studies, this thesis analyses in what other fields economic nationalism with an anti-German direction of impact emerged, and how it intersected with the political rapprochement of the 1930s.

With a larger time frame on the interwar period, Bientinesi highlights in his unpublished doctoral thesis on Italy’s foreign trade policy the importance of the economic relationship with Germany. The study indicates relevant archives and aspects from the Italian perspective, but fails to take into account the German perspective.<sup>63</sup> Mantelli published an instructive paper about the influence of economic factors on the German-Italian relationship between 1933 and 1936.<sup>64</sup> However, his announced larger study on the subject has not been published. Tattara, in his quantitative analysis of German-Italian trade in the 1930s, has called for an analysis of the composition of trade rather than the statistical terms of trade to address the question of power. His highly elaborated analysis concludes with a rejection of the argument that German economic penetration in Italy was unilaterally exploitative, and asks for a more detailed analysis of goals and outcomes in economic foreign policy making, which is at the heart of this thesis.<sup>65</sup>

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<sup>60</sup> G. Niedhart, *Die Außenpolitik der Weimarer Republik* (München, 2006), pp. 64-66. As Niedhart provides the standard reference for the foreign policy of the Weimar Republic, his overview on Germany’s economic relations, and the missing German-Italian case, makes more evident the “gap” in research.

<sup>61</sup> D.L. Caglioti, ‘Nazionalismo economico e antigermanesimo. La campagna contro i farmaci tedeschi durante la prima guerra mondiale in Italia’, *Contemporanea*, 13, 4 (2010), pp. 681-691.

<sup>62</sup> G. Alegi, ‘Balbo e il riarmo clandestino tedesco. Un episodio segreto della collaborazione italo-tedesca’, *Storia contemporanea*, 23, 2 (1992), pp. 305-317.

<sup>63</sup> F. Bientinesi, *La politica commerciale italiana fra le due guerre mondiali: 1919-1939* (Unpublished Ph.D. Diss., Università Pisa, 1999-2000).

<sup>64</sup> B. Mantelli, ‘Vom “bilateralen Handelsausgleich” zur “Achse Berlin-Rom”. Der Einfluß wirtschaftlicher Faktoren auf die Entstehung des deutsch-italienischen Bündnisses 1933-1936’, in J. Petersen, ed., *Faschismus und Gesellschaft in Italien. Staat – Wirtschaft – Kultur* (Köln, 1998), pp. 253-279.

<sup>65</sup> G. Tattara, ‘Power and Trade: Italy and Germany in the Thirties’, *VSWG*, 78 (1999), pp. 457-500, 490, 498.

## Contributions from Business History

Studies in Business History allow us to analyse the impact of economic foreign policy making on the private sector, and, conversely, the impact of private actors on policy making. In a reflection of the discipline, Friedman and Jones ask “why has business had a poor record of resistance to totalitarian regimes, not only in Hitler’s Germany”?<sup>66</sup> Only a small number of studies have considered businesses within the German-Italian relationship in the interwar period. Buggeln offers the criticism that studies on businesses under the swastika, which saw a boom in the late 1990s and 2000s, have a very narrow perspective, and neglect the interaction of business with armament and war in other countries such as Italy.<sup>67</sup> However, the few interpretations which exist are of great use for this thesis in that they help to identify different patterns of rivalries and collaboration in sectors more-or-less strategically relevant for Berlin and Rome.

Von Oswald has studied foreign direct investments of German businesses in chemicals, iron and steel, engineering and electro technology in Milan, Italy’s industrial heart, from the late nineteenth century to 1945.<sup>68</sup> Apart from a general overview of economic relations in the *longue durée*, von Oswald provides interesting evidence on how growing Italian nationalism in certain sectors led to accusations over German products and investments.

However, the continuing strong demand for German technical knowledge in Italy encouraged co-operation between companies in which fierce rivalries still prevailed. Petri examines the technological transfer between Germany’s and Italy’s chemical industries. He concludes that, in general, foreign policy supported a stronger co-operation, particularly in strategic sectors relevant to armament, such as the light metal or oil industry. However, the stakeholders acted within a framework of “competing national respectively company interests”.<sup>69</sup> Hertner deals with the case of the German electro-technical industry in the Italian market. He also identifies the tendency of German multinationals to adjust initial reluctance

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<sup>66</sup> W. A. Friedman and G. Jones, ‘Business History: Time for Debate’, *Business History Review*, 2011, 1 (85), pp. 1-8, 8.

<sup>67</sup> M. Buggeln, review of: N. Frei and T. Schanetzky, *Unternehmen im Nationalsozialismus: Zur Historisierung einer Forschungskonjunktur* (Göttingen, 2010), *H-Soz-Kult*, 24 Nov 2011, available: <<http://hsozkult.geschichte.hu-berlin.de/rezensionen/2011-4-140>> (retrieved 16 Jul 2015).

<sup>68</sup> A. von Oswald, *Die deutsche Industrie auf dem italienischen Markt von 1882 bis 1945. Außenwirtschaftliche Strategien am Beispiel Mailands und Umgebung* (Frankfurt a.M., 1996).

<sup>69</sup> R. Petri, ‘Zwischen Konkurrenz und Kooperation. Die deutsche Chemieindustrie und das technologische Aufholen Italiens’, in R. Petri, ed., *Technologietransfer aus der deutschen Chemieindustrie (1925-1960)* (Berlin, 2004), pp. 253-290, 289.

towards direct investments and joint cartels to the nationalistic conditions of the interwar period.<sup>70</sup>

A fairly successful collaboration is detected by Feldman for the case of insurance companies under the “Axis”. Very interestingly, he points out that the “insurance Axis functioned well despite, rather than because of, the ideological and political circumstances.”<sup>71</sup> The companies favoured a liberal organisation of the sector. As the sector was not at the centre of strategic considerations, political governance intervened only marginally, thus leaving the insurance business outside the rivalries emerging in other fields with greater importance for the strategic aims of the regimes.

The performance of businesses under varying patterns of collaboration and rivalry is far from sufficiently analysed. The thesis takes up suggestions by the above-mentioned authors and considers several sectors: banks, raw materials (especially crude oil), chemicals, transportation<sup>72</sup> (namely merchant shipping and railways) and one of the booming sectors of the interwar period, artificial fibres. In this sector, Italy became the global export champion. It is a difficult but nevertheless very promising endeavour to identify business case studies that shed light on the performance of the foreign economic policy set out by governments. For the case of Germany, Berghahn has put forward that there are “many books on what German diplomats, intellectuals and generals have been doing or dreaming of in this century [...] but we lack information about the behaviour of German business in a larger European context in this century”.<sup>73</sup> This thesis takes up Abdelal’s claim “that we have to understand the actually existing logic of trade – and, by extension, the practices of real firms – if we are to make sense of these new logics of world politic”.<sup>74</sup>

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<sup>70</sup> P. Hertner, ‘The German electrotechnical industry in the Italian market before the Second World War’, in G. Jones and H.G. Schröter, eds., *The rise of multinationals in continental Europe* (Aldershot, 1993), pp. 155-172. Idem, ‘Vom Wandel einer Unternehmensstrategie. Die deutsche Elektroindustrie in Italien vor dem dem Ersten Weltkrieg und in der Zwischenkriegszeit’, in H.G. Schröter, ed., *Politik, Wirtschaft und internationale Beziehungen: Studien zu ihrem Verhältnis in der Zeit zwischen den Weltkriegen* (Mainz, 1991), pp. 139-148.

<sup>71</sup> G.D. Feldman, ‘Competition and Collaboration among the Axis Multinational Insurers. Munich Re, Generali, and Riunione Adriatica, 1933-1943’, in C. Kobrak and P.H. Hansen, eds., *European business, dictatorship, and political risk, 1920-1945* (New York, 2004), pp. 41-61, 59.

<sup>72</sup> The question of who benefits from a region’s trade was – and still is – the question of who controls and organised the main trade routes. With regard to Southeastern Europe, rivalries occurred over the question whether the trade would be conducted via the Italian Adriatic or the North Western German harbours. Italy and Germany pursued this quest by engaging in infrastructure and railway projects (see Part III).

<sup>73</sup> V.R. Berghahn, *Quest for economic empire: European strategies of German big business in the twentieth century* (Providence, 1996), p. 2.

<sup>74</sup> R. Abdelal, ‘The profits of power: Commerce and realpolitik in Eurasia’, *Review of International Political Economy*, 20, 3 (2013), pp. 1-36, 29.

### 3.2 The Wider Spatial Dimension of the German-Italian Economic Relationship

#### Economic Relations with Southeastern Europe

In contrast to the few studies on the bilateral economic relationship between Germany and Italy, a rich literature exists on both Germany's and Italy's economic relations with Southeastern Europe<sup>75</sup> as a whole, or with certain countries of the region. Regrettably, patterns of rivalry and co-operation between the later "Axis" allies rarely have been addressed explicitly.<sup>76</sup> That the region has received so much academic interest is a result of the enormous changes that took place during the interwar period, both in terms of political as well as economic history.<sup>77</sup> As a consequence of the peace agreements after World War I, a number of new states emerged within the borders of the extinct Austro-Hungarian and Ottoman Empires. The remaining European powers engaged in the economic reorganisation of the region in order to pursue political aims and to seize economic opportunities in the new markets. The dynamics of the region had had such a huge impact on research that several authors have pointed out that the academic discipline Economic Development was largely founded by researchers from the region, using regional data as their empirical basis.<sup>78</sup>

There is a great deal of literature on the economic relations between Italy and Austria, the newly founded state on Italy's northern border of pivotal importance for Fascist Italy's foreign policy.<sup>79</sup> Although Germany's influence on Austria's political arena and market was anathema to Rome, research has often not taken into account the German perspective. Yet,

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<sup>75</sup> The spatial concept of "Southeastern Europe" (or "Balkans", "Danube region", etc.) is contested in historiography, especially after the seminal study of M.N. Todorova, *Imagining the Balkans* (New York, 1997). As for my project, the pivotal question of regional identity and its construction (from inside and outside) is of minor relevance for the analysis of German-Italian economic collaboration and rivalries in the region.

<sup>76</sup> I can only speculate on the reasons for this gap. One reason certainly seems a professional one. The typical author was often a historian, based in a specific national academic framework in one of the "peripheral" countries and writing on economic relations with one of the "cores", or the author was based in either Germany or Italy and writing on the economic relations with the "periphery". Cf. H. Sundhaussen, 'Wirtschaftsgeschichte Südosteuropas. Ist und Soll', *Südost-Forschungen*, 69/70 (2010), pp. 431-440, esp. 434. An explicit triangular perspective was only adopted very rarely.

<sup>77</sup> Cf. Aldcroft, *Europe's third world*.

<sup>78</sup> M. Todorova, 'The Trap of Backwardness: Modernity, Temporality, and the Study of Eastern European Nationalism', *Slavic Review*, 64 (2005), pp. 140-164, 145-146. Berend is one of the doyens of the field, who also touches on the relations with Germany and Italy in his major reference works. Cf., for instance, I.T. Berend, *Decades of crisis: Central and Eastern Europe before World War II* (Berkeley, 1998). Not less eminent in economic history of Southeastern Europe is Teichova. Cf., for example, A. Teichova, ed., *Österreich und die Tschechoslowakei 1918-1938: Die wirtschaftliche Neuordnung in Zentraleuropa in der Zwischenkriegszeit* (Wien, 1996).

<sup>79</sup> Cf. P. Cuomo, *Il miraggio danubiano: Austria e Italia, politica ed economia, 1918-1936* (Milano, 2012).

many existing studies point out events and settings, which the thesis investigates further. Enderle has studied the 1934 “Protocols of Rome” – an agreement at the frontier of foreign policy and foreign trade between Italy, Austria and Hungary. He neither uses Italian archival sources nor pays great attention to the role of Germany, which was, nevertheless, a central reference point of the agreement.<sup>80</sup> Similarly, Enderle-Burcel analyses the initial interwar years of the economic relationship between Italy and Austria through a focus on Austrian government documents.<sup>81</sup> Enderle-Burcel has continued to work on the topic, for instance, in the field of merchant shipping on the Danube, which the thesis assesses with regard to German-Italian rivalries.<sup>82</sup>

Going beyond Austria, Iaselli’s doctoral thesis<sup>83</sup> takes up a well-established branch of research on fascist foreign policy:<sup>84</sup> the analysis of Italy’s economic expansion into Southeastern Europe. While devoting a chapter to the “*ridimensionamento delle aspirazioni italiane nei Balcani alla luce del ‘Drang Nach Osten’ tedesco*”, Iaselli is, in line with the older literature, not so much interested in reflecting on the German expansion itself nor on mutual perceptions and interactions. However, Iaselli makes interesting reference to the big Italian banks, which were heavily involved in Italy’s expansion into Southeastern Europe and penetrated pre-war positions of German banks. German banks, on the other hand, tried to forge alliances with their Italian counterparts, which were the financially weakest among the banks of the victorious powers of World War I, in order to re-establish former positions.<sup>85</sup> Thereby, a constellation of co-operation and rivalries evolved, which the thesis examines in closer detail.

Italy’s economic penetration of Southeastern Europe is also an active field of historiography that deals with conceptions of space. In 2010, Petri edited a thematic issue of

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<sup>80</sup> P. Enderle, *Die ökonomischen und politischen Grundlagen der Römischen Protokolle aus dem Jahre 1934* (Unpublished Ph.D. Diss., Universität Wien, 1979).

<sup>81</sup> G. Burcel, *Die österreichisch-italienischen Wirtschaftsbeziehungen 1919-1923* (Unpublished Ph.D. Diss., Universität Wien, 1979).

<sup>82</sup> G. Enderle-Burcel, ‘Konkurrenz auf der Donau. Anfang und Ende der Betriebsgemeinschaft der Ersten Donau-Dampfschiffahrtsgesellschaft mit der königlichen ungarischen Fluß- und Seeschiffahrts A.-G. in der Zwischenkriegszeit’, in H. Matis, A. Resch, D. Stiefel and A. Teichova, eds., *Unternehmertum im Spannungsfeld von Politik und Gesellschaft: Unternehmerische Aktivitäten in historischer Perspektive* (Münster, 2010), pp. 171-184.

<sup>83</sup> L. Iaselli, *L’espansione economico-finanziaria italiana nei Balcani durante il fascismo* (Napoli, 2006).

<sup>84</sup> Cf., for instance, N. La Marca, *Italia e Balcani fra le due guerre: Saggio di una ricerca sui tentativi italiani di espansione economica nel Sud Est europeo fra le due guerre* (Roma, 1979); Collotti and Labanca, *Fascismo e politica di potenza*, pp. 205-246; S. Lavacchini, ‘L’Europa centro-orientale nella politica dell’Italia fascista’, *Italia contemporanea*, 230 (2003), pp. 49-78.

<sup>85</sup> For the Italian bank expansion see L. Stanciu, ‘Italian multinational banking in interwar east central Europe’, *Financial History Review*, 7 (2000), pp. 45-66. R. Di Quirico, *Building on borrowed bricks: Italian banks and international finance during the inter-war period* (Florence, 2008).

*qualestoria*, in which several scholars discussed the role of Italy's north-eastern borderlands within the larger concepts of Italy's sphere of influence. The authors deal with several actors from the region of Trieste, Italy's "*porta orientale*", like Fulvio Suvich, Igino Brocchi and Camillo Castiglioni. They all held important positions in business and government institutions and produced documents that are highly germane to this thesis.<sup>86</sup>

Germany's economic relations with Southeastern Europe in the interwar period is also a well-mined topic in German historiography. The recurring search is for continuities and discontinuities in policy approaches since the concept of an economic "*Mittleuropa*" became popular during World War I.<sup>87</sup> In connection with Transnational History's interest in conceptions of space, Sachse has edited a study on Southeastern Europe as an area, planned and developed by experts in the field of economic affairs. She points out that the aspect of domination has only very rarely been addressed in the recent spatial turn.<sup>88</sup> By looking at German-Italian rivalries in the construction of economic spaces in Southeastern Europe, the thesis brings back into discussion the question of power. Furthermore, Gross has argued that there have been many attempts "to make sense of how Germany's economic relationship with Southeastern Europe evolved in the 1930s", but that little has been done to explain how German merchants actually expanded commercial ties.<sup>89</sup> This is a fact that this thesis, with its evaluation of business performances in Germany's and Italy's economic expansion into Southeastern Europe, is going to alter. Above all, in most studies on Germany's economic relations with Southeastern Europe, Italy appears (if at all) in a section that briefly states that other powers and their different or competing concepts existed, without offering details on the triangular relationship.

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<sup>86</sup> R. Petri, 'Frontiera, periferia: qualche premessa', *Qualestoria*, 38, 1 (2010), pp. 7-19; P. Cuomo, 'Trieste, l'Italia e i tentativi di espansione commerciale nell'ex duplice monarchia (1918-1935)', *ibid.*, pp. 41-67; L. Cerasi, 'Frontiera, periferia. Fascismo e politiche per il porto di Trieste fra spazio nazionale e Mittleuropa', *ibid.*, pp. 69-97.

<sup>87</sup> H.-P. Höpfner, *Deutsche Südosteuropapolitik in der Weimarer Republik*. (Frankfurt a.M., 1983). W. Abelschauser, "'Mittleuropa' und die deutsche Außenwirtschaftspolitik", in K. Borchardt, C. Buchheim, M. Hutter and H.D. James, eds., *Zerrissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge* (Baden-Baden, 1994), pp. 263-286; J. Elvert, *Mittleuropa!: Deutsche Pläne zur europäischen Neuordnung (1918-1945)* (Stuttgart, 1999); K. Thörner, "*Der ganze Südosten ist unser Hinterland*": *Deutsche Südosteuropapläne von 1840-1945* (Freiburg im Breisgau, 2004).

<sup>88</sup> C. Sachse, 'Einführung. Der Mitterleuropäische Wirtschaftstag im Kontext', in C. Sachse, ed., "*Mittleuropa*" und "*Südosteuropa*" als Planungsraum: *Wirtschafts- und kulturpolitische Expertisen im Zeitalter der Weltkriege* (Göttingen, 2010), p. 18.

<sup>89</sup> S. Gross, 'Selling Germany in SouthEastern Europe: Economic Uncertainty, Commercial Information and the Leipzig Trade Fair 1920-40', *Contemporary European History*, 21, 1 (2012), pp. 19-39, p. 22.

Studies that have dared to deal with triangular relationships are rare, but they do exist and have offered new insights.<sup>90</sup> However, historiography has not explained the patterns of rivalry and collaboration in economic relations between Germany and Italy. Poulain<sup>91</sup> and Borejsza<sup>92</sup> have investigated instead rivalries between the dictatorships on the political level. With her study of Italian fascism in the world economic crisis, Rafalski provides the most comprehensive approach so far.<sup>93</sup> She also deals in one chapter with the German-Italian contest for the markets of Southeastern Europe. However, Rafalski makes very little use of archival documents. To conclude, patterns of German-Italian economic co-operation or rivalries in Southeastern Europe have been identified by research, but not yet properly scrutinized. Hence, this thesis investigates with a multilateral perspective and a broad archival documentation the triangular relationship, aiming to draw conclusions for the central question of power in the formation of the “Axis”.

#### Economic Relations with the Eastern Mediterranean

The introduction has highlighted that the conflictive German-Italian relationship was not confined to the European continent, but showed up in the markets of the Eastern Mediterranean as well. This region and its economic relations with Germany and Italy have received considerably less research attention than Southeastern Europe. This is to some extent understandable, as the latter was certainly more economically important at the time, but it is nevertheless unjustified, for two reasons. First, the region shared many characteristics with Southeastern Europe, and second, German and Italian institutions governing the economic expansion linked the two regions (see Part III, Chapter 9). In this context, it is interesting to

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<sup>90</sup> For a triangular study of the rivalries between Germany and the UK in Southeastern Europe, see M.-L. Recker, ed., *Von der Konkurrenz zur Rivalität: Das britisch-deutsche Verhältnis in den Ländern der europäischen Peripherie, 1919-1939* (Stuttgart, 1986). For a comparison of the Western powers, see D.E. Kaiser, *Economic diplomacy and the origins of the Second World War: Germany, Britain, France, and Eastern Europe, 1930-1939* (Princeton, 1980); G. Ránki, *Economy and foreign policy: The struggle of the great powers for hegemony in the Danube Valley, 1919-1939* (New York, 1983).

<sup>91</sup> M. Poulain, ‘Deutschlands Drang nach Südosten contra Mussolinis Hinterlandpolitik 1931-1943’, *Der Donauraum*, 22 (1977), pp. 129-153.

<sup>92</sup> J.E. Borejsza, ‘Die Rivalität zwischen Faschismus und Nationalsozialismus in Ostmitteleuropa’, *Vierteljahrshefte für Zeitgeschichte*, 29, 4 (1981), pp. 579-614.

<sup>93</sup> T. Rafalski, *Italienischer Faschismus in der Weltwirtschaftskrise (1925-36). Wirtschaft, Gesellschaft und Politik auf der Schwelle zur Moderne* (Opladen, 1984).

note that studies that deal with the general phenomenon of economic expansion, such as Di Quirico's already-mentioned study of Italy's banks, cover both regions.<sup>94</sup>

It appears that since the turn of the century, Italian historiography has been showing a growing interest in the region. In 2010, Arielli published a study on fascist foreign policy towards the Middle East in the 1930s, which also touches on Italy's economic interests. While there is scant reference to Germany, Arielli's interestingly observes that for Mussolini, all countries in the Eastern Mediterranean went through a phase of economic transition.<sup>95</sup> As this attitude has also been detected in Italy's as well as Germany's perspective on Southeastern Europe, the thesis follows the reasoning and investigates the relationship between the identification of certain countries as emerging economies and the policies of economic expansion in the aftermath of the world economic crisis.

Certainly not surprising is the attention in the literature to policies towards the oil of the Middle East.<sup>96</sup> The thesis takes up this strand to analyse Germany's and Italy's quest for oil in Iraq, where companies with government links from both countries joined a consortium. The above-mentioned studies show how important it is to broaden the analysis in terms of space into the Eastern Mediterranean. Thus, the thesis is not only able to study connections between different spatial concepts, but also to improve the understanding of the repercussions of the wider spatial dimension on the bilateral German-Italian economic relationship and vice versa.

#### ***4. Notes on Basic Concepts and Methodology***

The concept of (economic) crisis is paramount in this thesis, and thus deserves to be mentioned first in this introduction to basic concepts and applied methods. It has even been argued that the concept is essential for historiography.<sup>97</sup> During economic crises new opportunities arise for new actors.<sup>98</sup> The crisis' symptoms help the historian to identify the

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<sup>94</sup> Di Quirico, *Building on borrowed bricks*; Cf. also V. Francescon-Centa, *Die Außenhandelspolitik des neuen Italiens* (Hamburg, 1937).

<sup>95</sup> See N. Arielli, *Fascist Italy and the Middle East. 1933-40* (Basingstoke, 2010), p. 17.

<sup>96</sup> For the Italian historiography cf. M. Canali, *Mussolini e il petrolio iracheno: L'Italia, gli interessi petroliferi e le grandi potenze* (Torino, 2007); For the German cf. T. Kockel, *Deutsche Ölpolitik 1928-1938* (Berlin, 2005). H. Mejcher, *Die Politik und das Öl im Nahen Osten* (Stuttgart, 1980).

<sup>97</sup> J.M. Sawilla, 'Zwischen Normabweichung und Revolution. "Krise" in der Geschichtswissenschaft', in C. Meyer, K. Patzel-Mattern and G.J. Schenk, eds., *Krisengeschichte(n): "Krise" als Leitbegriff und Erzählmuster in kulturwissenschaftlicher Perspektive* (Stuttgart, 2013), pp. 145-172, 148.

<sup>98</sup> The Weimar Republic witnessed arguably two seminal "*Strukturbrüche*" (structural meltdowns), when it was



basic principles of the prevailing social order. Moreover, crises trigger processes of learning and development, which are a constitutive element of dynamic societies.<sup>99</sup> Therefore, although the discussion on the reasons for the seminal crisis in the interwar years is taken into consideration, this thesis is more about the opportunities that arose with it.<sup>100</sup>

The changes in economic policy brought forward by the crisis, especially in the case of Germany and Italy, are often described with the somewhat vague concept of “economic nationalism”. For the interwar period, James has argued that the implications of a global economy became painfully aware to large parts of the world population, and provoked nationalist responses. The first wave of modern globalisation (roughly 1870-1914)<sup>101</sup> was tested “so brutal that the system was destroyed, and the world reverted to autarchic or near-autarchic national economic management”.<sup>102</sup> Autarchy, the self-sufficiency of an economy, was and still is an important element of economic nationalism. However, Nakano has proposed in his instructive theoretical discussion of economic nationalism that the two concepts are not necessarily congruent.<sup>103</sup> At the very least, the goal of economic nationalism is to increase national power, and even a regime entirely driven by economic nationalism will embrace international economic co-ordination when it helps to increase national power. Nützenadel has pointed out that in spite of the setbacks to globalisation in the 1920s and 1930s, there have been new initiatives for international integration, for instance with the creation of the League of Nations.<sup>104</sup> The thesis analyses the attempts of the nationalistic German and Italian regimes at international co-ordination not only at the League, but also in their shared economic “periphery”.

The economic crisis of the 1930s changed significantly the economic relationships between the “core” and the “periphery”. The concepts are applied in the thesis in accordance

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founded on the ruins of World War I, and when it dissolved in the world economic crisis. See H. Knortz, *Wirtschaftsgeschichte der Weimarer Republik: Eine Einführung in Ökonomie und Gesellschaft der ersten Deutschen Republik* (Göttingen, 2010), pp. 31-32.

<sup>99</sup> T. Mergel and J. Baberowski, eds., *Krisen verstehen: Historische und kulturwissenschaftliche Annäherungen* (Frankfurt a. M., 2010), p. 239.

<sup>100</sup> For a historical overview of the types of economic and financial crises, their causes and consequences, see C.M. Reinhart and K.S. Rogoff, *This time is different: Eight centuries of financial folly* (Princeton, 2009); W. Plumpe and E.J. Dubisch, *Wirtschaftskrisen: Geschichte und Gegenwart* (München, 2010); Y. Cassis, *Crises and opportunities: The shaping of modern finance* (Oxford, 2013).

<sup>101</sup> World Bank, ed., *Globalization, Growth, and Poverty* (Washington D.C., 2002), pp. 24-26.

<sup>102</sup> H. James, *The end of globalization: Lessons from the Great Depression* (Cambridge, Mass., 2001), p. 5.

<sup>103</sup> T. Nakano, ‘Theorizing Economic Nationalism’, *Nations and Nationalism*, 10, 3 (2004), pp. 211-229, 224. Nakano describes in an abstract manner the various elements of economic nationalism, and therefore provides an insightful overview on where to look in the German-Italian case.

<sup>104</sup> A. Nützenadel, ‘Globalisierung und transnationale Geschichte’, *H-Soz-Kult*, 23 Feb 2005, available: <<http://hsozkult.geschichte.hu-berlin.de/forum/id=583&type=artikel>> (retrieved 16 Jul 2015); cf. S. Schirmann, *Crise, coopération économique et financière entre États européens, 1929-1933* (Paris, 2000).

with Aldcroft, who categorises a country solely on economic, rather than on political criteria.<sup>105</sup> Unlike the industrialised core of Europe, to which Germany in the interwar period clearly belonged, the peripheral countries in the continent's southeast were characterised by retarded industrialisation, low levels of urbanisation, no strong and acquisitive middle class element and an overall large share of agriculture, which led primarily to the export of commodities and imports of manufactured goods and capital.<sup>106</sup> Italy in the 1920s and 1930s is a very interesting case. At the time, it was just crossing the line, and thus a case in itself alongside Germany being part of the "core", and the countries of Southeastern Europe and the Eastern Mediterranean in the "periphery".<sup>107</sup>

The concept of "economic relations" is considered broadly in this thesis. It includes the more narrow "commercial relationship", that is, the exchange of goods and the flow of capital. Moreover, it includes all mutual exchanges having an impact on the performance of the economies. These exchanges include, to name but a few, the transfer of technical knowledge, the negotiation of commercial contracts, or the competition between opposing lobby groups. To assess the state of the commercial relationship the thesis often refers to the balance of trade, which depicts the difference between exports and imports as expressed in the official statistics. The balance of trade became a constant bone of contention in the interwar years. Likewise controversially discussed was the balance of payments, which records all economic transactions between two areas. In the case of Germany and Italy, this included in particular payments for imports, the German reparations, or the expenditure on tourism.<sup>108</sup>

The thesis applies two other means used by international economics to quantitatively assess commercial relationships. The first is the regional distribution of trade. Not only for Germany and Italy, but also for the countries in Southeastern Europe and the Eastern Mediterranean, the thesis analyses how much of the total trade was carried out with a given trade partner, and what conclusions can be drawn for the level of economic integration,<sup>109</sup> as well as the strategic importance of a given trade relationship. For the strategic importance, the

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<sup>105</sup> Centre-periphery classifications, especially with a view to the distribution of power in international relations, are a central feature of world system theories, whose most prominent version comes from the pen of Immanuel Wallerstein.

<sup>106</sup> Aldcroft, *Europe's third world*, pp. 11-19.

<sup>107</sup> *Ibid.*, p. 3; Cf. Zamagni, *Dalla periferia al centro*.

<sup>108</sup> J.-O. Hesse, *Wirtschaftsgeschichte: Entstehung und Wandel der modernen Wirtschaft* (Frankfurt a.M., New York, 2013), pp. 173-175.

<sup>109</sup> R. Klump and M. Skala, 'Wirtschaftliche Integration', in G. Ambrosius, D. Petzina and W. Plumpe, eds., *Moderne Wirtschaftsgeschichte: Eine Einführung für Historiker und Ökonomen* (München, 2006), pp. 347-368, 351.

analysis draws on Hirschman.<sup>110</sup> He distinguishes in his landmark work on the relationship between national power and foreign trade two effects. Firstly, the “supply effect”, which describes that, “by providing a more plentiful supply of goods or by replacing goods wanted less by goods wanted more (from the power standpoint), foreign trade enhances the potential military force of a country”. Secondly, the “influence effect”, which stresses that in one country there are “conditions which make the interruption of trade of much graver concern to its trading partners than itself”.<sup>111</sup>

The second quantitative means is the price effects as expressed in the terms of trade. The terms of trade indicate how much imports can be acquired with a certain volume of exports in exchange. It is analysed if the terms of trade of a country X turn more favourable or worsen while trading with country Y over a certain time.<sup>112</sup> However, the terms of trade, and furthermore a mere quantitative analysis of international economic relations, have been subject to criticism.<sup>113</sup> Arguably, the analytical instruments modelled on the theoretical assumptions of free-trade theory become less important for an economic history perspective, in particular when the spotlight is trained on the interwar period. The multitude of interests, motives and politic aims that drove the historical actors who built up the economic relationships can be captured only very partially with a quantitative assessment of traded goods and capital flows.<sup>114</sup>

An institutional approach, however, seems to be well suited for a close investigation of the multi-layered fabric that constituted the German-Italian economic relationship. For North – one of the founding fathers of new institutional economics – institutions are understood as “rules, enforcement characteristics of rules and norms of behaviour that structure repeated human interaction”.<sup>115</sup> An economic system therefore can be regarded as constituted by all the institutional conditions restricting the decision making of economic actors. Accordingly, my

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<sup>110</sup> Albert O. Hirschman was born 1915 in Berlin. After the Nazi seizure of power, Hirschman – Jewish by religion and socialist in his political thinking – left Germany for Italy. He took his PhD in foreign economic policy at the University of Trieste. He had to leave Italy in 1938 after Mussolini had introduced the anti-semitic *leggi razziali*.

<sup>111</sup> A.O. Hirschman, *National power and the structure of foreign trade* (Berkeley, 1980), pp. 14-16.

<sup>112</sup> G. Ambrosius, ‘Internationale Wirtschaftsbeziehungen’, in Ambrosius, Petzina and Plumpe, *Moderne Wirtschaftsgeschichte*, pp. 303-327, 313.

<sup>113</sup> *Ibid.*, 322; Tattara, ‘Power and Trade’, p. 459.

<sup>114</sup> Cf. J. Kocka, ‘Perspektiven der Wirtschaftsgeschichte’, in Gilgen, Kopper, Leutzsch and Berghahn, *Deutschland als Modell?*, pp. 25-42, 36; For the limited use of too-narrow and too-abstract models for historical inquiries into the actions of entrepreneurs, see H. Berghoff, ‘Entrepreneurship under Cooperative Capitalism: The German Case’, in Y. Cassis and I.P. Minoglou, eds., *Country studies in entrepreneurship: A historical perspective* (New York, 2006), pp. 98-128, 118.

<sup>115</sup> D.C. North, ‘Institutions and Economic Growth. An Historical Introduction’, *World Development*, 17, 9 (1989), pp. 1319-1332, 1321.

thesis looks at the formulation and implementation of commercial contracts, transnational agreements between businesses in consortia or trade fairs and other institutions having an impact on the actors of the German-Italian economic relationship. Institutions “can reduce transaction costs and thus may contribute to a more efficient use of productive use of productive resources”.<sup>116</sup> Nevertheless they are not necessarily created to be socially efficient. The formal rules are created to serve the interest of who has the power to create new rules.<sup>117</sup> Taking this quality of institutions into consideration, the thesis draws conclusions from the development of the institutionalised economic relationship for the overarching question of power in the German-Italian relationship.<sup>118</sup>

A focus on institutions in different national and transnational contexts requires a comparative perspective. A long tradition of grand comparisons between Nazi Germany and Fascist Italy exists. This approach is driven by the search for common features that might have contributed to the rise of fascist movements and regimes. In general, rather few studies in historiography have compared explicitly the economies of Nazi Germany and Fascist Italy. In contrast to this, the role of economic aspects has been prominently pointed out by the godfather of economic sociology, Polanyi, who saw the rise of fascism as a consequence of the condition of the market system.<sup>119</sup>

In Germany and Italy, comparison has had a place in historiography since the end of World War II. However, its conclusions and political implications (*Geschichtspolitik*) have changed over time. Under the rubric of totalitarianism, comparisons in German historiography and political science centered for several decades on the Soviet Union and stressed its similarities with National Socialism in terms of totalitarian violence. Italian fascism was only used as a negative foil, which made the similarities between the other regimes more striking, while drawing a more detailed picture of Mussolini’s regime did not seem attractive to this strand of research. In Italy, a similar tendency to highlight differences rather than similarities

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<sup>116</sup> J. Faust, ‘Autocracies and Economic Development. Theory and Evidence from 20th Century Mexico’, *Historical Social Research*, 32, 4 (2007), pp. 305-329, 308.

<sup>117</sup> See A. Reckendrees, ‘Institutioneller Wandel und wirtschaftliche Entwicklung. Das westliche Rheinland in der ersten Hälfte des 19. Jahrhunderts’, in Gilgen, Kopper, Leutzsch and Berghahn, *Deutschland als Modell?*, pp. 45-87, 45.

<sup>118</sup> Overall, studies in institutional economics have been criticised as having neglected the role of the state. See T. David, *Nationalisme économique et industrialisation: L’Expérience des pays d’Europe de l’Est (1789-1939)* (Genève, 2009), p. 17.

<sup>119</sup> K. Polanyi, *The great transformation: The political and economic origins of our time* (Boston, Mass., 2001).

emerged from the already-mentioned research perspective in the tradition of scholars like De Felice.<sup>120</sup>

Comparison as a method has remained popular despite the major changes brought by the end of the Cold War. In this context, it is very interesting to note that Schivelbusch's comparison of National Socialism, Italian fascism and the US New Deal, which touches on economic aspects implicitly when discussing the shared attack against liberalism, has not been criticised for overstating differences but, on the contrary, for its arbitrary construction of similarities.<sup>121</sup> As Patel's comparisons of the American New Deal and Nazi Germany's social policy has discovered, for instance, the Civilian Conservation Corps (CCC), an institution built to tackle the problem of mass unemployment in the Great Depression, was on a superficial level very similar the *Reichsarbeitsdienst* (RAD) in Nazi Germany. However, his detailed analysis reveals the differences in terms of organisation and political objectives; it proves that the RAD was used instead as a negative example for the advancement of the CCC.<sup>122</sup>

Economic aspects have only recently gained more ground in the field of comparison.<sup>123</sup> Even in 1996, an edited volume comparing Fascist Italy and National Socialist Germany only marginally touched on the role of the economy when discussing the relationship between fascism and the working class and the crisis of the bourgeoisie. This is surprising because it was the editor's intention to address the overall question as to what extent the two regimes paved the way for modernity.<sup>124</sup> This gap in the research is about to be addressed.<sup>125</sup> An explicit comparison of the political economy of the regimes has been

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<sup>120</sup> For a state-of-the-art overview see C. Goeschel, 'Italia docet? The Relationship between Italian Fascism and Nazism Revisited', *European History Quarterly*, 42 (2012), pp. 480-492.

<sup>121</sup> W. Schivelbusch, *Entfernte Verwandtschaft: Faschismus, Nationalsozialismus, New Deal 1933-1939* (München, 2005). For the critique, see H. Woller, review of: *ibid.*, *Neue Zürcher Zeitung*, 30 Mar 2005. See for a similar comparison from the 1930s, E.T. Colton, *Four patterns of revolution: Communist U.S.S.R., Fascist Italy, Nazi Germany, New Deal America* (New York, 1935).

<sup>122</sup> See K.K. Patel, "Soldaten der Arbeit": *Arbeitsdienste in Deutschland und den USA 1933-1945* (Göttingen, 2003). According to Haupt, historical comparisons have to be carried out with great care because their quality hinges on contextualisation of factors and outcomes. See H.-G. Haupt, 'Die Geschichte Europas als vergleichende Geschichtsschreibung', in R. Petri, ed., *Probleme und Perspektiven der Europa-Historiographie* (Leipzig, 2004), pp. 83-97, 87.

<sup>123</sup> It would be too far-reaching to mention at this point all comparative studies in search of a generic concept of fascism. The literature in this field, much influenced by the works of Roger D. Griffin, saw an extensive rise throughout the 1990s, and 2000s. Griffin's generic definition of fascism has been criticised for its exclusion of corporatism, and economic aspects in general. See S. Reichardt, 'Neue Wege der vergleichenden Faschismusforschung', *Mittelweg* 36, 16, 1 (2007), pp. 9-25, 13; Cf. T. Schlemmer and H. Woller, 'Politischer Deutungskampf und wissenschaftliche Deutungsmacht. Konjunkturen der Faschismusforschung', in T. Schlemmer and H. Woller, eds., *Der Faschismus in Europa: Wege der Forschung* (München, 2014), pp. 7-15.

<sup>124</sup> R. Bessel, ed., *Fascist Italy and Nazi Germany: Comparisons and Contrasts* (Cambridge, 1996), p. 9.

<sup>125</sup> In 2008, Hof published his dissertation comparing capital market policies in Nazi Germany and Fascist Italy.

provided by Baker. He explains historiography's scant attention to the political economy of Fascist Italy and Nazi Germany through recourse to its eclecticism and lack of coherence. However, he points out that precisely this ability to integrate different strands of economic thinking found among capitalism and socialism, broadly grouped under the label of the 'third way', is a shared feature of fascist political economy.<sup>126</sup> The common disposition to flexible integration triggers a research perspective that is not present in Baker's work, but that in recent years has unveiled many new insights on the German-Italian relationship and that is also at the heart of the thesis' methodological orientation: the study of transfers between the dictatorships.

Transfers – targeted movements of various objects (ideas, institutions, technologies, political or social techniques, goods, cross-border commuters, etc.) over borders<sup>127</sup> – are often mentioned in connection with debates on 'transnationalisation' of historiography.<sup>128</sup> The study of transfers is a suitable approach to analyse the various relations (from government institutions to civil society) that constructed the fabric of the "Rome-Berlin Axis". The concept of transfer analysis applied by this thesis is in line with comparative history.<sup>129</sup> In order to correctly assess what happens during a transfer, comparisons before and after are an integral part of the research process.<sup>130</sup>

Early contributions that pointed in this direction concentrated especially on the perception of fascism in the crisis of the Weimar Republic and the flow of fascist ideas into Germany.<sup>131</sup> This strand is still informative for the thesis, for instance, when the prologue

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See P. Hof, *Kurswechsel an der Börse – Kapitalmarktpolitik unter Hitler und Mussolini. Wertpapierhandel im deutschen Nationalsozialismus (1933-1945) und im italienischen Faschismus (1922-1945)* (München, 2008). This study was criticised for its comparison of Germany between 1933 and 1945 on the one hand, and Italy between 1922 and 1945 on the other. The chapter on the twenties is characterised by Wixforth as unpersuasive, as the political framework was very different. Cf. H. Wixforth, review of: *ibid.* *H-Soz-Kult*, 20 Nov 2008, available: <<http://hsozkult.geschichte.hu-berlin.de/rezensionen/2008-4-157>> (retrieved 16 Jul 2015).

<sup>126</sup> D. Baker, 'The political economy of fascism: Myth or reality, or myth and reality?', *New Political Economy*, 11 (2006), pp. 227-250, 227, 242.

<sup>127</sup> For this definition see J. Paulmann, 'Grenzüberschreitungen und Grenzräume. Überlegungen zur Geschichte transnationaler Beziehungen von der Mitte des 19. Jahrhundert bis in die Zeitgeschichte', in Conze, Lappenküper and Müller, *Geschichte der internationalen Beziehungen*, pp. 169-196, 180.

<sup>128</sup> For an attempt to clarify the term 'transnational history', which comes close to my understanding of this ambiguous concept, see K.K. Patel, 'Transnationale Geschichte – Ein neues Paradigma?', *H-Soz-Kult*, 2 Feb 2005, available: <<http://hsozkult.geschichte.hu-berlin.de/forum/id=573&type=artikel>> (retrieved 16 Jul 2015).

<sup>129</sup> Cf. H.-G. Haupt, 'Die Geschichte Europas als vergleichende Geschichtsschreibung', in R. Petri, ed., *Probleme und Perspektiven der Europa-Historiographie* (Leipzig, 2004), pp. 83-97, 93.

<sup>130</sup> J. Kocka and H.-G. Haupt, 'Comparison and Beyond. Traditions, Scope and Perspectives', in H.-G. Haupt and J. Kocka, eds., *Comparative and transnational history: Central European approaches and new perspectives* (New York, 2009), pp. 1-30, 20.

<sup>131</sup> K.-P. Hoepke, *Die deutsche Rechte und der italienische Faschismus* (Düsseldorf, 1968). W. Schieder, 'Der Faschismus als Vorbild in der Krise der Weimarer Republik', *Historische Zeitschrift*, 262 (1996), pp. 73-125.

analyses the ideological foundations on which the economic relationship was built after 1929. Reichardt's edited volume from 2005 is probably one of the first major studies to follow explicitly the strand of transfer history.<sup>132</sup> Schieder, for example, contributes to the volume with a description of the fascist propagandist Giuseppe Renzetti, who travelled to Weimar Germany in order to build up chambers of commerce and to promote the Italian idea of corporatism.<sup>133</sup> Renzetti is pre-eminent for the economic rapprochement as described in Part I of the thesis, and so is Schieder's dedication to historical actors. Transfers do not happen without human intervention, and thus the thesis closely observes the identities of the actors behind a transfer.

Liebscher has dealt with transfers in the field of social policy with a case study on *Kraft Durch Freude*. This recreation agency was set up by the Nazi government using as a template the Italian example *Dopolavoro*.<sup>134</sup> Liebscher's dissertation has broadened the analysis of transfers on the field of social policy.<sup>135</sup> Fascist Italy's social reforms were one of the regime's preferred subjects for its foreign propaganda in 1927-1935, when it praised its political system as a global model.<sup>136</sup> The same channels were used for these campaigns as for Italy's propaganda on foreign commerce, a field that Liebscher considers as insufficiently covered by research.<sup>137</sup> Her study is very useful for this thesis, as she identifies actors, institutions and archives for the study of transfers in social policy, which, however, are even more instructive for a study of transfers in economic relations.<sup>138</sup> Liebscher also signals the paucity of knowledge regarding the situation in Geneva. The thesis takes up this point and deals in its second part, *inter alia*, with Italian industrialists and government officials who engaged in international organisations in order to enhance international support for Italy's foreign economic policy.

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<sup>132</sup> S. Reichardt, ed., *Faschismus in Italien und Deutschland: Studien zu Transfer und Vergleich* (Göttingen, 2005).

<sup>133</sup> Promemoria Renzetti, 12 May 1929, BArch, NL 1235/1; Cf. G. Renzetti, *Der korporative Staat* (Leipzig, 1934). See W. Schieder, 'Faschismus im politischen Transfer. Giuseppe Renzetti als faschistischer Propagandist und Geheimagent in Berlin 1922-1941', in Reichardt, *Faschismus in Italien und Deutschland*, pp. 28-58.

<sup>134</sup> D. Liebscher, 'Faschismus als Modell. Die faschistische Opera Nazionale Dopolavoro und die NS-Gemeinschaft Kraft durch Freude in der Zwischenkriegszeit', in *ibid.*, pp 94-118.

<sup>135</sup> D. Liebscher, *Freude und Arbeit: Zur internationalen Freizeit- und Sozialpolitik des faschistischen Italien und des NS-Regimes* (Köln, 2009).

<sup>136</sup> B. Scholz, *Italienischer Faschismus als 'Export'-Artikel (1927-1935): Ideologische und organisatorische Ansätze zur Verbreitung des Faschismus im Ausland* (Trier, 2001).

<sup>137</sup> Liebscher, *Freude und Arbeit*, p. 38.

<sup>138</sup> Liebscher used the document series of the Italian Foreign Ministry's Department of Trade Relations (1919-1950) with a focus on social policy. However, more can be found on Italy's economic relationships.

The transfer approach is far from over-worked. It is a very welcome development for historiography that young Italian scholars working on the German-Italian relationship are also paying increasing attention to transfers.<sup>139</sup> Furthermore, recent methodological reflections have posed the still-open question of what triggers transfers. Is it, perhaps, a reaction to a perceived situation of rivalry, as the edited volume by Aust suggests?<sup>140</sup> As against most extant empirical work, which considers connections between democracies rather than dictatorships or the flow of *Opera* rather than the arms trade, the authors of the *Palgrave Dictionary of Transnational History* have called on historiography to focus on the flows of “evil”.<sup>141</sup> This thesis offers both: a reflection on transfers between dictatorships as well as between rivals in economic relations. What is more, many approaches to transnational history stress the role of space as a heuristic tool of historiography.<sup>142</sup> The thesis takes up this branch of research and treats the construction of transnational economic areas in Southeastern Europe as well as the Eastern Mediterranean. As will be shown, to the construction of these areas transfers of institutions such as commercial contracts or transportation subsidies contributed in many ways.

## ***5. Structure and Empirical Basis***

### Chapter 1

Chapter 1 stands between the conceptual remarks of the introduction and the main body of the thesis. It guides the reader to the topic, whereby it goes beyond the time-frame of the main body (Chapters 2-9). First, it looks back at important milestones in the German-Italian economic relationship since the late nineteenth century to better understand the changes the world economic crisis sparked after 1929. In addition, to specify the foundations on which the economic relations after the world economic crisis were built, it asks, through an explicit comparative perspective, how each of the countries faced the crisis. What were common features and major differences in terms of response mechanisms? Following this comparison,

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<sup>139</sup> Cf., for instance, C. Poesio, *Il confino fascista: L'arma silenziosa del regime* (Roma, 2011).

<sup>140</sup> See M. Aust, ed., *Vom Gegner lernen: Feindschaften und Kulturtransfers im Europa des 19. und 20. Jahrhunderts* (Frankfurt, 2007).

<sup>141</sup> P.-Y. Saunier, ‘Learning by Doing. Notes about the Making of the Palgrave Dictionary of Transnational History’, *Journal of Modern European History*, 6, 2 (2008), pp. 159-180, 170.

<sup>142</sup> K.K. Patel, ‘Transnationale Geschichte – Ein neues Paradigma?’, *H-Soz-Kult*, 2 Feb 2005, available: <<http://hsozkult.geschichte.hu-berlin.de/forum/id=573&type=artikel>> (retrieved 16 Jul 2015).



the analysis goes deeper. In order to avoid constructing the two national cases as “black boxes,” attention is drawn to each country’s perception of the other in tackling the crisis and, moreover, will identify transfers in the field of economic relations.

#### Part I: Bilateral Economic Rapprochement (Chapters 2-4)

After the prologue finishes with a description of the differences and similarities in tackling the world economic crisis in both countries, Part I will lay bare the consequences of this development on bilateral economic relations. The statistics show that up to 1929, the two countries had diverse trade relations with Western powers and a steadily rising share in trade with the US. However, from then on their levels of integration into the global economy declined, with Germany taking the position of Italy’s major trade partner. The thesis analyses the structural changes in trade, and shows the repercussions with foreign policy. Did the economies become more complementary, or was the rapprochement rather a necessary consequence of the international trend towards regionalism in the aftermath of the world economic crisis? In other words, was the outcome intended by the policy makers, or was it actually undesired but accepted as inevitable? In this regard, Part I investigates the role ascribed to the respective other in the concepts of autarchy, which became popular as a reaction to the world economic crisis. Part I ends with a consideration of the conclusions that may be drawn from this for the crucial question of power in the German-Italian relationship. That is to say, did Italy become economically dependent on Germany?

To answer these questions, Part I relies on a variety of sources. Foreign trade was in the period of investigation largely subdued to political control. Therefore, an analysis of the institutional framework which constructed the new logics of trade (quite different from the liberal concept of free trade) offers insights into expectations and goals of the involved actors. As recent studies of transfers within the “Axis” have successfully shown, the institutions of “official diplomacy”, the embassies, were not the only places of interaction. Central bankers, government officials from ministries of economy, agriculture or infrastructure, but also corporations and other private institutions (such as business associations or trade fairs) all nurtured relationships that spanned the Alps.

The sources used for this paper represent the variety of actors who shaped the German-Italian economic area. The analysis is based on previously unexploited material from the archives of the foreign ministries’ trade departments and consulates; other central

government institutions (e.g. *Reichsstelle für Außenhandel*; *Istituto Nazionale per il Commercio Estero*) and central banks (*Reichsbank*; *Banca d'Italia*); as well as evidence from private business representatives. It is particularly interesting to note that the rarely studied document series of the foreign ministries' trade departments (kept at *Politisches Archiv – Auswärtiges Amt* in Berlin and *Archivio Storico del Ministero degli Affari Esteri*<sup>143</sup> in Rome) bring the documentation of two crucial authorities back to life. In both countries, the archives of the ministries for economic affairs (*Reichswirtschaftsministerium*; *Ministero delle Corporazioni*) have been mostly lost, but the secondary documentation, evolving from the entanglement of competences with the foreign ministries' trade departments, allows us to come to some understanding of these decisive authorities.<sup>144</sup> The analysis also draws on reports produced by Fascist Italy's secret police, the *polizia politica* or OVRA (*Organizzazione per la Vigilanza e la Repressione dell'Antifascismo*).<sup>145</sup> Its reports provide unadorned accounts of the real state of the Italian economy and its relations with Germany. Therefore, they serve to balance the doubtlessly palliated description offered by the official propaganda (of course, keeping in mind that the *polizia politica* often based its reports on rumours and did not specify sources).

More valuable information can be gleaned from the newspaper collections on commercial issues compiled by institutions dealing with foreign trade. These collections provide insightful information, as they represent attitudes by different stakeholders using specific newspapers as their mouthpiece (e.g. *Il Popolo di Roma* for Italy's agricultural lobby). It can be assumed that the articles retrieved from a collection not only represent the leading media in covering the matters discussed, but that the content of the articles was very likely at the disposal of the economic operator behind the collection. The press, of course, was increasingly subjected to government control in the period under investigation.

After archival material is mined to reveal the intentions of the various stakeholders vis-à-vis the German-Italian economic relationship, and newspaper coverage to illustrate public opinions surrounding the institutional milestones, submissions by businesses and foreign trade statistics are consulted to confront expectations with actual performance. In

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<sup>143</sup> Mantelli refers in a paper on Italian archives and research into fascism to the “very interesting” and largely unexplored document series of the department of trade relations (1919-1950). See B. Mantelli, ‘Im Reich der Unsicherheit? Italienische Archive und die Erforschung des Faschismus’, in *Vierteljahrshefte für Zeitgeschichte*, 53 (2005), pp. 601-614, 609. This document series provides a great deal of evidence for this thesis.

<sup>144</sup> Quite similarly, the economics ministries in both countries successfully invaded the competence of the foreign ministries to conduct trade contracts, and eventually became the leading authorities. The commercial attaches in Italy's embassies, for instance, were delegated officials of the MCorp.

<sup>145</sup> It is not entirely clear what the abbreviation OVRA stands for.

addition, several actors who actively shaped German-Italian economic relations have published reflections on the relationship, which will also be taken into account. Of major importance are the works of Felice Guarneri,<sup>146</sup> Alberto De Stefani and Mussolini's long arm in Berlin, Giuseppe Renzetti, who was affiliated with different institutions of Italian foreign economic policy. In Germany, publications will be considered from, among others, the pen of Hjalmar Schacht, president of the central bank and minister of economic affairs and Ulrich von Hassell, German ambassador in Rome.

## Part II: Ambivalent Collaboration at the International Level (Chapters 5-7)

Even though the analysis of the bilateral relationship will present in detail the shared fascination for economic autarchy, both countries remained entangled with the international economy. The *Vossische Zeitung*, Germany's liberal newspaper of record, reflected in 1932 that

...today, real economic convergence [between Germany and Italy] is only possible if it creates a new economic area. Two countries alone are too weak to form a new economic area. The world and especially Europe are on the move to create large economic areas. Therefore every economic convergence, if sustainability is intended, must be target-aimed. That means, both partners must consider themselves as part of a larger economic area, and be determined to fight for it. Therefore, every economic convergence reaches far into power politics.<sup>147</sup>

Accordingly, in order to assess coherently the German-Italian economic rapprochement, Part II looks at those international economic initiatives involving both revisionist regimes with a strong discontent for the post-war order of Europe and beyond.

Needless to say, the supporter of the political order created after World War I appraised with suspicion the shared initiatives. There was certainly reason for mistrust. Part II

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<sup>146</sup> Felice Guarneri, an economist by training, started his career in public service at the Istituto Mobiliare Italiano (IMI), a state holding company and predecessor of the Istituto per la Ricostruzione Industriale (IRI), which took large shares in banking and industry during the world economic crisis. In 1935, Guarneri became undersecretary of state responsible for trade and foreign exchange. His department was promoted in 1937 into a separate ministry. See S. Cardarelli, F. Cotula and L. Spaventa, *La politica monetaria tra le due guerre: 1919-1935* (Roma, 1993), p. 907. Guarneri's monumental, two-volume memoir on "economic battles" in the interwar period provide a rich documentation for the analysis of the German-Italian economic relationship. See F. Guarneri, *Battaglie economiche fra le due guerre* (Bologna, 1988).

<sup>147</sup> 'Der unerklärte Handelskrieg', *Vossische Zeitung*, 4 Mar 1932.

demonstrates, for instance, how the project of a German-Austrian customs union in 1931 was disguised at the international stage as an economic rescue action, but could hardly dispel misgivings on behalf of the opponents to the union that economic concession ultimately intended a greater political leverage. Fascist Italy followed the same path. Given its relative economic weakness and Mussolini's foreign policy, which intended to make Italy the *peso dominante* (the decisive weight in the international arena), Fascist Italy's foreign economic policy had initially tried to keep sound relationships with each of its major trading partners. However, with the outbreak of the world economic crisis it increasingly followed an approach shared with Germany. It not only adopted instruments already set into practise by the German government such as, for instance, import quotas and preferential commercial contracts, but it also independently drove forward the institutionalisation of trade in the form of bilateral agreements, thereby taking its share in what soon appeared to contemporary commentators as a common German-Italian stance.

Robert Fabre-Luce, a French aristocrat active in the *Abendland* movement, described in the German newspaper *Deutsche Allgemeine Zeitung* that

...with every Italian I meet I constantly experience a certain sense of pride that they [the Italian nation] were able to imitate the former German state and to improve it according to its purpose. And in doing this, they are not separated from Europe but the antithesis of Europe. In propagating *Antieuropa*, they unconsciously do the best for Europe: because they build a standard, provide an example, a pointer to the future.<sup>148</sup>

Part II shows how the idea of *Antieuropa*, understood as a German and Italian counter-concept to liberal free trade, also guiding their plans in constructing their economic relationships with Europe and beyond.

Similarities do not necessarily imply collaboration. As contributions from transfer history have pointed out, even between the borders of the polarised cold war world transfers of knowledge influenced the formulation of similar policies on both sides of the iron curtain (e.g. Taylorism), without of course providing for a political rapprochement.<sup>149</sup> Despite the similarities of the German and Italian stance, this relationship was far from rival-free. Therefore, this chapter aims at not only adding an important cornerstone to the analysis of the

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<sup>148</sup> R. Fabre-Luce, 'Was kann Europa vom Faschismus erwarten?', *Deutsche Allgemeine Zeitung*, 5 Jan 1930.

<sup>149</sup> See M. Aust and D. Schönplflug, 'Vom Gegner lernen', in Aust, *Vom Gegner lernen*, pp. 9-35.

political economy of fascism and Nazism in the Great Depression, but also at drawing inferences about the German-Italian economic relationship.

In terms of structure, Part II starts with presenting the big picture of the international dimension of the German-Italian economic relationship. Subsequently, the analysis refocuses on the institution which, albeit new to the diplomatic stage, became a major forum for discussions on the international economic order: the League of Nations. One region caught the particular attention of the League. In Southeastern Europe, World War I ended with the collapse of the Austro-Hungarian and the Ottoman Empire, and the rise of several new nation-states. The League took from its foundation a great share in the economic reconstruction and development of these countries as it supervised many of the international loans granted to the new states.<sup>150</sup> However, after the outbreak of the economic crisis, which was particularly severe in Southeastern Europe, the League's impact reached unprecedented levels when it set up relief programmes for the debtor countries in economic crisis. This happened concurrently with Germany's and Italy's reinforced expansionist desires for the same region. Hence, the analysis hones in on Germany's and Italy's involvement in the League's economic and financial work. The thesis asks how Germany and Italy attempted to align the League's agenda with their own foreign economic expansion, and what role their rivalries played in this regard. Moreover, it signals the longer-lasting impact the discussion at the League had on both countries' foreign economic policies.

This chapter, then, is a crucial connector between the bilateral economic rapprochement as described in Part I, and the German-Italian clashes in the actual penetration of the markets in Southeastern Europe and the Eastern Mediterranean, as described in Part III. To keep these three topics together, a decision was taken against a chronological order. While Part I deals with the bilateral relationship between 1929 and 1936, Part II starts with the analysis of the international dimension again in 1929 and finishes in 1933. Part III covers the international dimension between 1933 and 1936.

Sources have been collected from national archives in Germany, Italy and the United States, but also from the archives of the League of Nations at UNOG in Switzerland. This twofold documentation allows for distinguishing the (tactical) international rhetoric present at the official level from the underlying targets concerned with the national interest only.<sup>151</sup>

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<sup>150</sup> Cf. Clavin, *Securing the world economy*; Y. Decorzant, *La Société des Nations et la naissance d'une conception de la régulation économique internationale* (Bruxelles, 2011).

<sup>151</sup> This twofold perspective has been claimed in an early account on research on the League of Nations. See P.L.

Moreover, it helps to identify different levels of economic co-operation and rivalries between the two major ultra-nationalist regimes of the interwar period.

### Part III: The Quest for New Markets – Southeastern Europe and the Eastern Mediterranean (Chapters 8 and 9)

The third and last part of the thesis demonstrates the degree to which the economic expansion of Nazi Germany and Fascist Italy after 1933 built on the experience officials acquired while working at the League of Nations. German and Italian former League experts like Hans Posse or Fulvio Suvich became high-profile foreign economic policy makers after they moved from Geneva to their respective capitals. They brought with them valuable and even confidential information they had acquired in dealing as delegates directly with national governments and economies in crisis. Furthermore, the commercial instruments applied after 1933 still bore evidence of means to attenuate the crisis, which were elaborated before 1933. Of particular interest are Southeastern Europe and the Eastern Mediterranean (which, as the thesis shows, are not always clearly divided in the sources) because these regions were the common intersection of both foreign economic policies.<sup>152</sup> The roles which the respective other had in policy concepts with regard to the regions is identified, as is the way in which the concepts shaped each other.

Finally, Part III addresses the question of how the policies were implemented in the markets and what conclusions can be drawn when the development in the “periphery” is confronted with the dynamics of the bilateral relationship, as described in Part I. More precisely, did Germany’s and Italy’s economic expansion coexist with mutual benefits? That

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Orsi, ‘L’archivio della Società delle nazioni e la politica italiana’, *Rivista di storia contemporanea*, 10, 2 (1981), p. 282-291, 286.

<sup>152</sup> There are good reasons to include Latin America into this thesis. Not only were its markets a major battleground between the US and Germany/Italy, it potentially bears much evidence on the economic rivalries between Germany and Italy on third-party markets that will be analysed in Part III. However, the decision was made not to include it because, first, the consulted documentation on third-market rivalries refers more extensively to the regions covered; second, the political dimension of the economic relationships was significantly lower than the ones with Southeastern European states (major targets of revisionist claims); and third, no substantial explanatory gains that would justify the inclusion in the limited amount of space therefore seem likely. Furthermore, one could possibly argue that also Ethiopia, which became part of imperial Italy in 1936, should have been treated as well. However, studies that deal with German-Italian economic co-operation already exist. See L. Montazel, ‘La coopération économique germano-italienne en Ethiopie (1936-1941)’, in G. Bender, R.M. Kiesow and D. Simon, eds., *Die andere Seite des Wirtschaftsrechts: Steuerung in den Diktaturen des 20. Jahrhunderts* (Frankfurt am Main, 2006), pp. 225-256; Rieder, *Deutsch-italienische Wirtschaftsbeziehungen*, pp. 77-82. Moreover, the history of the war in Ethiopia, and its subsequent integration into the empire, would be difficult to bring in line with the time frame of this thesis.

is, were attempts made to collaborate, or did the achievements of one mean significant losses for the other? The guiding questions of Part III, therefore, allow us to complete the circle opened with the questions raised in Part I, and eventually come to the conclusion of the thesis.

To address the questions posed in Part III, the same trio of contemporary research literature, publications by relevant actors and archival sources from institutions in the field of foreign economic policy is used as for the study of the bilateral economic relationship. Especially Southeastern Europe and its economic relationship with *Mitteleuropa* (Central Europe) has drawn much attention from research institutions like the *Institut für Weltwirtschaft* (Institute for the World Economy).<sup>153</sup> Studies as Francescon-Centa's (1937) publication on Italy's foreign economic policy address both trade with Germany and, for instance, the "steering of exports into the countries of the Levant".<sup>154</sup> As the chapter is about actual economic interpenetration of the markets in Southeastern Europe (particularly Austria, Hungary, Yugoslavia, Bulgaria and Albania) and the Eastern Mediterranean (Turkey, Egypt, Palestine, Iraq), much weight is given to documents providing evidence of business activities.

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<sup>153</sup> Cf. David, *Nationalisme économique*, p. 22.

<sup>154</sup> Francescon-Centa, *Die Außenhandelspolitik*.





# Chapter 1: Prologue – Framing the German-Italian Economic Relationship<sup>155</sup>

## *1. From the Late Nineteenth Century to the 1920s*

Since in May 1882, when the first trains passed the Gotthard massif, and the whole European continent was marvelling at this technical milestone, Germans and Italians developed entirely new perspectives for their trade. The “industrial triangle”, as the interconnected cluster of Turin, Genoa and Milan in northern Italy is called, was now directly connected with Central Europe by rail.

At the same time, German goods became more and more popular in Italy. This was because parallel to the political alienation between Italy and France due to an unsolved “Roman question” and the colonial struggle for North Africa, the attractiveness of the French market eroded. In 1886, the French market was still receiving 44.3 per cent of Italian exports.<sup>156</sup> With the Franco-Italian trade war starting in 1888, and a series of protectionist demands and measures that seriously affected the exchange of goods between the *sorelle latine*,<sup>157</sup> German goods received a new opportunity.<sup>158</sup> The transalpine integration of the two economies was politically backed by Italian Prime Minister Francesco Crispi, who took over in 1887, and his orientation towards the triple alliance (*Dreibund*) with Germany and Austria-Hungary.<sup>159</sup> The German-Italian commercial contract, concluded on 6 December 1891, implied for German exporters tariff concessions to all goods that replaced French products on the Italian market.<sup>160</sup>

The “late comer”, Italy was during this time still in the midst of a transformation from a largely agrarian economy, which saw individual initiatives of industrialisation. It was

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<sup>155</sup> *Chapter 1: Prologue – Framing the German-Italian Economic Relationship* is based on my unpublished MA thesis. See P. Tiedtke, *Ökonomie der Achse. Wirtschaftliche Aspekte der deutsch-italienischen Beziehungen zwischen der Weltwirtschaftskrise und dem Zusammenbruch 1945* (Unpublished MA thesis, Universität Bonn, 2009).

<sup>156</sup> Zamagni, *The economic history of Italy*, p. 123.

<sup>157</sup> Still in 1936, German Ambassador in Rome Ulrich von Hassell denominates Italy and France as the Latin sisters, see U. von Hassell, and U. Schlie, *Römische Tagebücher und Briefe: 1932-1938* (München, 2004), p. 254.

<sup>158</sup> Cf. H. Afflerbach, *Der Dreibund: Europäische Großmacht- und Allianzpolitik vor dem Ersten Weltkrieg* (Wien, 2002), pp. 242-259.

<sup>159</sup> Cf. von Oswald, *Die deutsche Industrie*, p. 42.

<sup>160</sup> Cf. P. Schubert, *Die deutsch-italienischen Handelsbeziehungen von der Gründung des Königreiches Italien bis zur Gegenwart* (Bielefeld, 1930), pp. 80-81.

decisive for the future character of the Italian economy that these initiatives were carried out largely in the regions of northern and central Italy, thus shaping the still-existing economic north-south divide for the industrial age. While in northern Italy, 36 per cent of the general working population was in industry and 42 per cent in agriculture, on the national level only less than a third of the work force was industrial.<sup>161</sup> The economic upswing had to face setbacks at times, showing all in all an uneven picture of the Italian industrialisation.<sup>162</sup> A telling description provides a report of the director of the German Archaeological Institute in Rome, Ludwig Curtius, who travelled to Italy in 1900 and referred to “flourishing industries” in northern Italy and public letter writers for the illiterate population of Naples.<sup>163</sup>

The German economy passed, in the last decade before the turn of the century, the decisive stage towards the industrial age. More people were working in industry and the tertiary sector than in agriculture. As a consequence of the still-increasing population, agricultural goods and raw materials were in short supply. The capital formation, however, increased, and finally the surplus enabled a linkage with other countries’ markets to increase profits and sales opportunities.<sup>164</sup> The comparison of Germany’s and Italy’s level of economic development Italy highlights the import and export requirements that would define trade between Germany and Italy for the future.

In order to ensure the expansion of production, Germany increasingly demanded raw materials on the world market. Since Italy barely possessed mineral resources, Germany discovered the Mediterranean market primarily as a supplier of agriculture goods.<sup>165</sup> Among the Italian raw material exports, silk became, with more than half of total exports, Italy’s export hit.<sup>166</sup> Within the category “food and beverages”, Germany received southern fruits on a preferable basis. The export of industrially manufactured goods was in importance far behind the first two positions. To sum up, German imports from Italy consisted mainly of goods that were not essential for the German economy, and thus only represented a small part of total imports. They rather served to attain a certain quality of life. In addition, demand was

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<sup>161</sup> See Knox, ‘Expansionist Zeal’, p. 115.

<sup>162</sup> An overview of the divergent research reconstructions of the Italian phases of industrialisation provides Zamagni, *The economic history of Italy*, pp. 75-109.

<sup>163</sup> *Jahresberichte der deutsch-italienischen Handelskammer* (1928), p. 13.

<sup>164</sup> H.-W. Hahn, *Die industrielle Revolution in Deutschland* (München, 1998), pp. 46-47.

<sup>165</sup> Cf. H. Klein-Berlin, ‘Probleme der italienischen Wirtschaftsentwicklung’, in E. Wunderlich, ed., *Italien: Moderne Entwicklungen und Probleme* (Stuttgart, 1932), pp. 23-38.

<sup>166</sup> See B. Höpfner, *Der deutsche Außenhandel 1900-1945* (Frankfurt a.M., 1993), p. 323. Other goods of the category raw materials: flax, hemp, jute, fur, sulphur and marble. See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 98.

less constant, since a good harvest in Germany automatically reduced demand of agricultural products from Italy.

In Italy, however, imports were characterised by the yet-early stage of industrialisation, creating especially a demand for industrial finished goods, semi-finished goods and foreign capital. In the 1890s, the class “textiles and fabrics” still dominated the statistics, whereas, with the turn of the century, the class “machines, instruments and vehicles” and “iron and steel goods” captured the top positions among exported goods. In the first decade of the twentieth century, the products of the German chemical and pharmaceutical industry reached second place in the trade statistics, which also for the first time contained products of the electro-technical industry.<sup>167</sup> The only position in the class of raw materials that increasingly rose in importance was the commodity group of “hard coal and coke deliveries”.<sup>168</sup> Even better for the German export, imports in these classes were barely or not at all burdened by Italy’s customs policy.

The structure of exports to Italy was largely consistent with Germany’s total export, which specialised in industrial products and manufactured goods. In contrast, Italian imports from Germany were compared with Italy’s total imports of a completely different character. This highlights the success of German interest against international competition on the Italian market, which reached at the beginning of the twentieth century a dominant position in a number of industries.<sup>169</sup>

This success was due to the strategy of the German business community, active on the Italian market. A contemporary observer certified that German merchants were scrupulous about maintaining direct contact with their customers. With their distinct language skills, the Germans were able to ferret out market needs and desires. Once the needs were identified, the German companies not only offered goods customised for the Italian market within a very short time, they also presented them in catalogues with Italian prices and weights so that their import character was rather veiled. The direct rail connection made it easier to deliver the goods to the customer’s door and not, as was common when ordering from the UK, to the water’s edge of a British port. The personal relationship established between German

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<sup>167</sup> Hertner, ‘The German electrotechnical industry’, pp. 155-172.

<sup>168</sup> For a detailed description of the balance of trade see Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 104.

<sup>169</sup> In the years before World War I, German finished goods were able to increase their market share to 46.9 per cent. The electro-technical industry provided 70 per cent of generators, 65 per cent of transformers, and 60 per cent of bulbs. The German chemical industry provided 84 per cent of aniline dyes. See P. Hertner, ‘Vom Erfolg und seinen vielen Vätern: Die deutsche Ausfuhr und der italienische Markt von den 1880er Jahren bis zum Ausbruch des Ersten Weltkriegs’, *Scripta Mercaturae*, 18 (1984), pp. 1-22, 16-18.

merchants and Italian customers allowed them to assess more precisely credit quality, as well as enabling them to issue long-term loans on terms which cut out the other trade competitors.<sup>170</sup>

Not only German goods, but also German capital, stimulated the young Italian industries. German companies took part in operations of various branches of industry and the capital market where they suspected development opportunities and lucrative prospects.<sup>171</sup> In addition, foreign direct investments of multinational corporations in Italy brought along cost advantages because it reduced expenses for customs duties and transportation on a developing market.<sup>172</sup> The foundation of the big Italian universal banks (*Banca Commerciale Italiana* and *Credito Italiano*) was largely influenced by the German financial industry.<sup>173</sup>

On the eve of World War I, after two decades of growth during the Giolitti era,<sup>174</sup> and in an atmosphere of expanding Italian nationalism, fewer and fewer voices perceived the exchange of “golden oranges and scented lemons [against] machinery and colours”<sup>175</sup> as a profitable investment, but as a sort of “economic imperialism”<sup>176</sup> and a threat to domestic industrial development. In Italian business circles, mistrust increased against the *tedeschi*,<sup>177</sup> who were suspected of an unfair policy of dumping. For instance, the German steel producer association was explicitly accused of keeping the prices so low that they did not even cover the cost of production, and therefore stifled the development of the Italian steel industry.<sup>178</sup>

Another accusation insinuated that German entrepreneurs would engage in industrial espionage on a grand scale. In the textile industry, according to the historian and

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<sup>170</sup> This evaluation of German commercial methods comes from the British commercial attaché Percy Bennet. See *ibid.*, p. 5.

<sup>171</sup> Hertner, ‘The German electrotechnical industry’, pp. 155-172, 157-159. Hertner describes how large corporations like Siemens and AEG first created a market for its product, and how the market thereafter was turned into a lucrative object for investments from Germany

<sup>172</sup> Cf. Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 68; H.G. Schröter, ‘Continuity and Change: German multinationals since 1850’, in G. Jones and H.G. Schröter, eds., *The rise of multinationals in continental Europe* (Aldershot, 1993), pp. 28-48.

<sup>173</sup> F. Amatori, ‘Entrepreneurial Typologies in the History of Industrial Italy. Reconsiderations’, *Business History Review*, 85, 1 (2011), pp. 151-180, 158. Cf. P. Hertner and F. Pino, ‘Unternehmensstrategien und Managementstrukturen einer großen italienischen Bank. Die Banca Commerciale Italiana (1894-1945)’, *Zeitschrift für Unternehmensgeschichte*, 45 (2000), pp. 167-204.

<sup>174</sup> Named after Giovanni Giolitti who was five times prime minister of Italy between 1892 and 1921. Cf. N. Rossi and G. Toniolo, ‘Catching up or falling behind? Italy’s economic growth, 1895-1947’, in G. Federico, ed., *The economic development of Italy since 1870* (Aldershot, Hants, 1994), pp. 183-209, 191. F. Amatori and A. Colli, ‘Models of Entrepreneurship in a Latecomer Country: Italy’, in Y. Cassis and I.P. Minoglou, eds., *Country studies in entrepreneurship: A historical perspective* (Basingstoke, Hampshire, 2006), pp. 129-148, 133.

<sup>175</sup> Quoted in von Oswald, *Die deutsche Industrie*, p. 45.

<sup>176</sup> E. Gray, *L’invasione tedesca in Italia* (Firenze, 1916), p. 147.

<sup>177</sup> By referring to *tedeschi*, Austrian and Swiss nationals were often included as well.

<sup>178</sup> See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 111.

contemporary propagandist Ezio Gray, German negotiators obtained secret patterns from fashion houses in Paris and delivered them to German manufacturers for mass production. With low prices and stolen ideas, “the German Mastino invades with brutal attacks” the Italian market, so went the accusation.<sup>179</sup>

Although this example with all its sharpness is only anecdotal evidence of the public mood, a systematic evaluation of German influence on the young industries of electrical and mechanical engineering, chemical and pharmaceutical industries concludes that the German dominant trading position inhibited or even prevented the establishment of Italian productions.<sup>180</sup> This is one aspect that should be taken into consideration throughout the investigation of the inter-war period and the attempts of fascism to detach from the influence of other economies.

World War I notably changed the German-Italian economic relationship for both protagonists. With the treaty of Versailles, Germany lost all property abroad, and also had to pay reparations to the victorious powers (including Italy). The secessions of territory in the East changed the raw material and food supply of the German economy, and the new states had still to be integrated into a functioning trading system.<sup>181</sup>

Italy was able to strengthen its position, confidently entering the trade negotiations, which paved the way to the post-war reconstruction period. Although the *Regno* was among the first Entente powers that started trade negotiations with Germany, Rome still took advantage of the trade discrimination against Germany, established by the treaties of Versailles.<sup>182</sup> Rome imposed on its German trading partner the unilateral, unconditional most-favourable treatment of Italian goods on the German market. The most-favoured-nation clause, one of the pillars of a liberal conception of free trade, provides that two states concluding a foreign trade agreement take the goods of the contractual partner on the same favourable terms that have been granted to other trade competitors.<sup>183</sup> Unlike imports from the US and France, which were in value as in volume increasing more and more, German goods no longer enjoyed equal treatment on the Italian market in the first half of the 1920s.<sup>184</sup> A reason for

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<sup>179</sup> Gray, *L'invasione*, p. 147. Gray kept publishing in the fascist period. Cf. E. Gray, *Armi e frontiere* (Novara, 1934); L. Missoni, E. Gray and G. Bastianini, *Luci ed ombre sulle dinariche, Italia nei Balcani* (Bologna, 1942).

<sup>180</sup> See von Oswald, *Die deutsche Industrie*, p. 294.

<sup>181</sup> See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 130.

<sup>182</sup> One of Italy's most important instruments to protect its domestic market and infant industries was the customs policy. See R. Schneiders, *Deutsch-italienische Handelsbeziehungen* (Bonn, 1926), p. 72.

<sup>183</sup> M. Klein, 'Meistbegünstigung', in Springer Gabler Verlag, ed., *Gabler Wirtschaftslexikon*, available: <<http://wirtschaftslexikon.gabler.de/Archiv/54304/meistbeguenstigung-v5.html>> (retrieved 16 Jul 2015).

<sup>184</sup> See von Oswald, *Die deutsche Industrie*, p. 51.

Rome's early attempt to re-open formal trade talks with Germany lays in the fact that the Italian industry was not yet able to compensate for the lack of highly specialised German products. However, the negotiators tried to impede a dominance that would allow the German economy to "invade" the Italian market again.

In this way, a young domestic industry should be supported, which in the years of war and cut commercial ties had taken the opportunity to gain market shares in sectors previously dominated by foreign goods.<sup>185</sup> During war, the state had massively increased its demand in weapons, machinery, explosives, ships and motor vehicles. Subsequently, not only the Italian heavy industry prospered in the post-war period. In the absence of coal deliveries, the energy industry had discovered hydro-power as "white coal". Furthermore, the machine and precision engineering industry and especially the chemical industry breached into various new market segments.<sup>186</sup> The growth of export-oriented industries benefited from inflation during the first post-war years, the reduction of debts, increasing investments and a favourable exchange rate situation owed to a relatively weak lira.<sup>187</sup>

Yet, enthusiasm was by no means undivided. Victims of the new trade policy were not only German industrialists, who had to overcome even harder obstacles after Rome introduced a new customs tariff act in 1921. The Italian farmers, who still represented a powerful element of the society, were afraid that its best "customer" Germany would also regulate imports of agricultural products from Italy in response to the protectionist measures of Rome's industrial policy.<sup>188</sup>

The Italian advances in industrialisation can be grasped as well from the trade statistics of the 1920s. On the one hand, the proportion of semi-finished and finished goods among Italy's exports could be increased.<sup>189</sup> On the other hand, the demand for German coal grew rapidly because even the enlarged Italian hydroelectric plants could no longer satisfy the still-growing energy needs of the Italian industry. The German iron and steel industry, as well as the textile industry, could not achieve the pre-war volume of their sales and joined the ranks of the victims of the post-war order. In a few sectors, where an Italian production only recently had taken ground such as in mechanical engineering, the chemical industry and

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<sup>185</sup> See L. Rosa, 'Economic change and nationalism in Italy in the twentieth century', in A. Teichova, H. Matis and J. Pátek, eds., *Economic change and the national question in twentieth-century Europe* (Cambridge, 2000), pp. 173-195, 183.

<sup>186</sup> See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 125.

<sup>187</sup> See Zamagni, *The economic history of Italy*, pp. 210-214.

<sup>188</sup> See von Oswald, *Die deutsche Industrie*, p. 91.

<sup>189</sup> Cf. Höpfner, *Der deutsche Außenhandel*, pp. 324-325.

electrical engineering, specialised German goods could achieve or even surpass the pre-war sales volume in some years. But on the whole, in the 1920s German-Italian trade in these sectors was subject to turbulent and irregular fluctuations.<sup>190</sup>

Certainly responsible for trade fluctuations and increasing protectionist obstacles was the increased state influence on commerce. Unlike its competitors Britain and France, which had established chambers of commerce in Italy before World War I, German authorities used to be satisfied with the economic reports written by the consulates' diplomats. Immediately after the war, the *Auswärtiges Amt* (AA) established foreign trade agencies, whose function was eventually taken over by the private news agency *Wirtschaftliche Nachrichtendienst GMBH*.<sup>191</sup> It was not until 1921 that the first chambers of commerce in Genoa and Milan were established.<sup>192</sup> In the same year, envoys of the two countries agreed on the formation of a bilateral and evenly borne chamber of commerce in Frankfurt am Main. Its tasks included the settlement of trade and delivery disputes as well as the provision of information on suppliers and potential customers. Furthermore, it distributed information on passport matters, transportation and all applicable fees, and therefore facilitated transalpine trade.<sup>193</sup>

After the international restrictions on Germany's foreign trade were lifted in 1925, the German government immediately attempted to return to the favourable trade conditions that existed prior to World War I. The result was the conclusion of the German-Italian commercial treaty on 31 October 1925. Previously, the stabilisation of the Reichsmark had inhibited the sales of German products on the Italian market. Simultaneously, signals were sent from Italy that German goods were still in demand and that concessions regarding tariff issues were possible. Most significantly, the treaty ended the discrimination toward German trade, and bound both countries to mutual most-favoured-nation obligations. In exchange for greater accommodation of Italian agricultural products, Germany accomplished a reduction of customs duties for many of its manufactured goods. However, these concessions did not include to the same extent the sectors of electrical and chemical products, due to strong domestic interest and reservations.<sup>194</sup>

With the conclusion of the contract in 1925, many stakeholders expressed hopes that commercial relations finally would be kept on an even keel. However, barely a year after

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<sup>190</sup> See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, p. 163.

<sup>191</sup> *Jahresberichte der deutsch-italienischen Handelskammer* (1926), p. 41.

<sup>192</sup> Cf. von Oswald, *Die deutsche Industrie*, p. 85.

<sup>193</sup> *Jahresberichte der deutsch-italienischen Handelskammer* (1926), pp. 35-39.

<sup>194</sup> See Schubert, *Die deutsch-italienischen Handelsbeziehungen*, pp. 148-150.

signing the contract, a major intervention of the fascist regime in the economy caused new ripple effects in trade. After the Italian economy had experienced an economic upswing in the first half of the 1920s,<sup>195</sup> the forecasts darkened progressively since mid-decade. The deficit in the balance of payments increased constantly because, among other factors, the remittances of many Italian emigrants went into decline.<sup>196</sup> Subsequently, the lira lost value, which resulted in rising costs for the industries with huge import requirements. At the same time, public debt and the tax burden on citizens increased, who now were forced to reduce their savings deposits. Parts of the Italian population responded with open protest and strikes to this perceived threat to their economic wellbeing.<sup>197</sup> As inflation was heading for ever-higher rates and the value of the lira was under continual pressure in the summer of 1926,<sup>198</sup> Mussolini decided to act in order to save the international reputation of the Italian economy.

In his famous speech on 18 August 1926 in Pesaro, the Duce announced a policy termed, “quota 90”, with which he proposed to fight a “battle of the lira [...] till death”.<sup>199</sup> The lira was dramatically appreciated, reaching an exchange rate of 92.46 Lire per pound sterling, a level last reached in 1922, the year of Mussolini’s “March on Rome”. This reform was anything but uncontroversial, and for a long time it had seemed as if a policy of “quota 120”,<sup>200</sup> suggested by Italian Finance Minister Giuseppe Volpi, would prevail. Volpi merely intended to moderate inflation and received support from business representatives of traditional and emerging, export-orientated industries. The rigid policy of deflation, which stood behind Mussolini’s demand for a “quota 90”, however, favoured domestic electrical, chemical and heavy industries that had focused its sales strategy on government contracts and the Italian market. Its high import requirements could be met by the appreciation at much lower costs.<sup>201</sup> Given the unequal impact on certain interest groups of the Italian economy, it

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<sup>195</sup> C.-L. Holtfrerich, *Moneta e credito in Italia e Germania dal 1914 al 1924*, in P. Hertner and G. Mori eds., *La transizione dall'economia di guerra all'economia di pace in Italia e in Germania dopo la prima guerra mondiale* (Bologna, 1983), pp. 665-691, 673-674 .

<sup>196</sup> Remittances of Italian emigrants had prior to World War I played an important role in balancing the Italian deficit in trade. Cf. P. Hertner, ‘Italienische Unternehmen und Unternehmer in Deutschland und ihr Einfluß auf die deutsche Wirtschaft von der frühen Neuzeit bis zur Gegenwart’, in H. Pohl, ed., *Der Einfluß ausländischer Unternehmen auf die deutsche Wirtschaft vom Spätmittelalter bis zur Gegenwart* (Stuttgart, 1992), pp. 39-55, 48; R. Del Fabbro, ‘Von den Anfängen bis zur Krise der Weimarer Republik’, *Mitteilungsblatt des Instituts zur Erforschung der Europäischen Arbeiterbewegung*, 21 (1998), pp. 84-94.

<sup>197</sup> Rafalski, *Italienischer Faschismus*, pp. 31-84.

<sup>198</sup> Only between May and August 1926 the lira lost 17-18 per cent of its value. See Zamagni, *The economic history of Italy*, p. 251.

<sup>199</sup> B. Mussolini, *Scritti e discorsi. Dal 1925 al 1926* (Milano, 1934), p. 386.

<sup>200</sup> That is, the appreciation should only provide for an exchange rate of 120 Lire per pound sterling.

<sup>201</sup> See Rafalski, *Italienischer Faschismus*, p. 39.



is no wonder that the “quota 90” has been considered as Mussolini’s “most controversial measure [...] before 1929”.<sup>202</sup>

Since 1926, world trade had experienced a cyclical upturn, but the picture in Germany and Italy was a different one. In the latter, the value of exports decreased steadily since 1925 (mostly due to the “quota 90”), and did not experience growth until 1928.<sup>203</sup> Germany, instead, was able to take advantage of the global economic trend and increased in the second half of the 1920s the value of its exports.<sup>204</sup> In 1929, when the world went into crisis, the German market absorbed up to 11.7 per cent of Italian exports and thus acquired the second position among Italy’s customers. Among Italy’s main suppliers, the German economy was with a share of 14.2 per cent only beaten by the US (see Table 4).

## ***2. The Impact of the World Economic Crisis***

The bankruptcy of the Austrian bank *Creditanstalt* in May 1931 was a crucial moment in the world economic crisis. Immediately thereafter, German banks too encountered existential financial difficulties. The government was forced to apply extreme measures, and closed banks to protect them against bank runs. In addition, the government introduced far-reaching measures to curb the flight of gold and protect foreign exchange reserves.<sup>205</sup> Once the monetary flow was cut unilaterally with exchange controls, Germany’s creditors, particularly in Europe’s largest financial centre, the city of London, came under pressure. On 21 September 1931, the *Bank of England* responded by ending the tie of the currency to gold, and thus the role as an “invisible conductor of the international orchestra” it had possessed throughout the latter half of the nineteenth century.<sup>206</sup>

With this day, the attempt to build an international financial system based on the gold standard finally failed. Due to the relatively rigid regulations of the gold standard, individual governments had not been able to respond with an expansionary monetary policy to economic

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<sup>202</sup> A. De Grand, *Italian Fascism: Its Origins and Development* (Lincoln, 2000), pp. 60-62.

<sup>203</sup> See Rafalski, *Italienischer Faschismus*, p. 127.

<sup>204</sup> See Höpfner, *Der deutsche Außenhandel*, p. 320.

<sup>205</sup> Germany abandoned the gold standard in July 1931. However, the government under Heinrich Brüning refused to change its deflation policy and continued to fight against the fall of the Reichsmark, which would have increased the burden of its substantial foreign debt. See M. A. Diehl, *Von der Marktwirtschaft zur nationalsozialistischen Kriegswirtschaft. Die Transformation der deutschen Wirtschaftsordnung 1933-1945* (Stuttgart, 2005), p. 39.

<sup>206</sup> J. M. Keynes, *A Treatise on Money* (New York, 1930), p. 306.

problems. Schumpeter called it the “golden brake on the credit machine”.<sup>207</sup> During times of global economic balance, it used to have the advantage that economic problems were limited to their place of origin. However, as the global economy started losing ground, the gold standard accelerated the spread of the problems in a way never seen before.<sup>208</sup> The *Bank of England's* decision to abandon the gold standard and devalue the currency caused such an alarming effect that within a very short time 24 countries followed this example. In the summer of 1932, in Europe only France, Belgium, the Netherlands, Poland, Switzerland and Italy refused to give in to the trend. The countries of the so-called gold bloc hoped to keep with the gold standard their commercial relationships sound.<sup>209</sup>

In Italy, a banking crisis could be curtailed before it unfolded completely. When the two universal banks *Credito Italiano* and *Banca Commerciale* faced bankruptcy, the state responded with a massive financial support programme. In return, the state decreed that the banks change their holding and investment strategies within the industrial sector, and thus provided for a stronger state involvement in the private sector.<sup>210</sup> In general, the Italian public hardly registered or even commented on the precarious bank situation. In informal meetings with the head of the Italian financial industry, the fascist regime succeeded in adopting the measures in secret. Thereby, it stripped the crisis of its mass psychological aspect.<sup>211</sup>

With the averted banking crisis in mind, some observers have classified the macroeconomic impact of the world economic crisis on Italy as much less severe than its impact on most other countries. This assessment is also supported with reference to the Italian GDP, which only fell by two per cent between 1929 and 1932. A more detailed evaluation of the different production sectors reveals, however, that the Italian industrial production declined in the same period by 14 per cent, and was thus harder hit by the worldwide slump in demand than, for example, the industry of Britain.<sup>212</sup> The situation in Italy was the result of the specific level of industrialisation, which on the peninsula was still lagging behind the European trend. While sectors such as agriculture, construction and public administration neither shrank nor grew, sectors such as the already-mentioned lending and insurance business,

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<sup>207</sup> Quoted in G. Hardach, ‘Internationale Währungssysteme’, in Ambrosius, Petzina and Plumpe, *Moderne Wirtschaftsgeschichte*, pp. 329-345, 335.

<sup>208</sup> See C. H. Feinstein, *The European economy between the wars* (Oxford, 1997), p. 108; B.J. Eichengreen, *Golden fetters: The gold standard and the Great Depression, 1919-1939* (New York, 1995).

<sup>209</sup> See Boelcke, *Deutschland als Welthandelsmacht*, p. 16.

<sup>210</sup> See G. Toniolo, *L'economia dell'Italia fascista* (Roma/Bari, 1980), pp. 230-233.

<sup>211</sup> See Feinstein, *The European economy*, p. 117.

<sup>212</sup> See R. Petri, *Storia economica d'Italia. Dalla Grande Guerra al miracolo economico (1918-1963)* (Bologna, 2002), p. 94. The BIP of Germany declined in the same period by one quarter.

the service sector and industries stimulated by public demand (e.g. electricity) were able to balance the significant losses in general industrial production.

To the production figures, historiography added the development of unemployment to support the argument of a weak crisis' impact in Italy. In Germany, the decline in production had devastating consequences. One of three employable citizens was unemployed at the height of the crisis. Official figures alone reported six million registered unemployed, and at the same time suppressed figures for the many unreported victims of the price decline in agriculture.<sup>213</sup> For Italy, Maddison has estimated on the basis of official statistics an increase in unemployment of 4 per cent for the period from 1929 to 1932,<sup>214</sup> which was only outperformed by the employment development in France, which was thanks to its large gold reserves less affected after the collapse of the gold standard.<sup>215</sup> In contrast, a study by Toniolo concludes that unemployment figures shoot up between 1929 and 1932-33, from 300,000 to over a million. The discrepancy can be explained because Toniolo assumes that Italy's still quite-significant agricultural sector acted as a "sponge sector", whereby many of the newly unemployed were not covered by the official statistic.<sup>216</sup>

The Great Depression undoubtedly hit Germany harder than Italy. By all accounts, the industrial power, internationally connected with other economies by a strong and growing export as well as the obligation to pay reparations after the lost war, was in the midst of the events that triggered the crisis. And even if the difficulties arising for the economies in crisis had the same macroeconomic causes, they developed in most countries – and not only in Italy – in very different ways. Making the sweeping statement that Italy had been spared from the world economic crisis would reduce the complexity of economic development and lead to an inadequate assessment of the situation in Italian industry.

Over the course of the crisis, fundamental institutions governing foreign commerce wavered. Many citizens lost their confidence in the liberal theory of the self-regulating forces of the market, which had had a major impact since the beginning of the industrial age. Among the accusers of free trade were not only scientifically arguing economists, but also the highest leaders of the fascist and Nazi movements in search of a common denominator to disguise

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<sup>213</sup> See Feinstein, *The European economy*, pp. 134-135.

<sup>214</sup> A. Maddison, *Dynamic forces in capitalist development: A long-run comparative view* (Oxford, 1991), p. 261.

<sup>215</sup> Between 1928 and 1932 France's share in the world gold reserves increased from 11.6 to 28.3 per cent. Cf. K. Mouré, *The gold standard illusion: France, the Bank of France, and the international gold standard, 1914-1939* (Oxford, 2002).

<sup>216</sup> Toniolo considers public administration as another "sponge sector" of the Italian economy. See Toniolo, *L'economia*, p. 146.

their ideological pragmatism.<sup>217</sup> In 1929, Mussolini proudly proclaimed that the Italians had been the first in declaring that the individual freedom has to be limited as the more complex civilisation become”.<sup>218</sup> From the perspective of fascism, he named the guilty party and a way out of the crisis. The doctrine of individualism would have misled the economic operator to selfish and only-for-profit behaviour. Due to the increasing complexity of the global economy, this had undermined and eventually also caused the collapse of international trust. The Duce set the value of individual freedom against the value of the “absolutist state”, which would have an impact on all areas of life and thus pave the way for a “state capitalism”.<sup>219</sup> Felice Guarneri, director of the *Banco di Roma*, and one of the most influential economists of the fascist regime,<sup>220</sup> held the opinion that World War I was the beginning of the collapse of liberal free trade. Guarneri commented in a lecture at the *Institut für Weltwirtschaft* (Kiel Institute for the World Economy) that during the post-war period the “death blow” to free trade was dealt by the Versailles decisions on reparations and political borders, a trend towards tougher protectionism, barriers in the movement of goods, persons and capital and the general uncertainty in financial markets and government policies.<sup>221</sup>

Likewise in Germany, criticism of liberalism arose with the Nazi seizure of power to a level of state doctrine. At the same time, the agitators could refer to a long tradition of thought that ranged from Hegel, Friedrich List and Karl Marx, to a contemporary of National Socialism, Werner Sombart, which embarked on a path beyond individualism. Although Germany, a nation-state that experienced its first major economic crisis (“*Gründerkrach*”) only two years after its formation, joined the ranks of the most industrialised nations in the late nineteenth century, the influence of that tradition of thought increased.<sup>222</sup> Representatives of the NSDAP, as the head of the foreign trade department of the party, Werner Daitz, regarded liberalism only as a degenerate remnant of ideology that expresses the “lower ethics

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<sup>217</sup> Cf. S. Reichardt, ‘Neue Wege der vergleichenden Faschismusforschung’, *Mittelweg* 36, 16, 1 (2007), pp. 9-25, 15.

<sup>218</sup> Quoted in F. A. Hayek, *Der Weg zur Knechtschaft* (München, 2003), p. 67. For the various attacks on political and economic liberalism see A. Somma, *I giuristi e l’Asse culturale Roma-Berlino* (Frankfurt a.M., 2005), pp. 85-86.

<sup>219</sup> B. Mussolini, *Lo stato corporativo. Con una appendice contenente la carta del lavoro, i principali testi legislativi e alcuni cenni sull’ordinamento sindacale-corporativo* (Firenze, 1936), pp. 16, 22.

<sup>220</sup> For Guarneri’s biography see L. Zani, *Fascismo, autarchia, commercio estero: Felice Guarneri un tecnocrate al servizio dello “Stato nuovo”* (Bologna, 1988).

<sup>221</sup> See F. Guarneri, *Autarkie und Außenhandel* (Jena, 1941), pp. 9-10.

<sup>222</sup> Cf. F. A. Hayek, *Der Weg zur Knechtschaft* (München, 2003), pp. 41-42; C. Torp, *Die Herausforderung der Globalisierung: Wirtschaft und Politik in Deutschland 1860-1914* (Göttingen, 2005).

of international traders”.<sup>223</sup> Hitler himself warned in *Mein Kampf* of “an extreme internationalisation of the German economy”, and called for a fight against the system of “enslavement of labour under capital” practised by liberalism.<sup>224</sup>

Particularly in Germany, the criticism was formulated in racial categories. The individual according to the *völkische* ideology could only be “free” to the extent that its nation (Volk) would enjoy “freedom”.<sup>225</sup> But international trade since the nineteenth century would be characterised by an unequal distribution of this freedom. Especially those people that should have appeared as guardians of the principle of equal distribution due to their favoured economic position had insisted merely on maintaining their share and thus fomented the disappointment of the “havenots”.<sup>226</sup> In Italy, it was not so much the *völkische* ideology built on race and a related living space (Lebensraum), but rather a political culture of “latinity”, understood as a historical bond between the fascist regime and ancient Rome, that opposed individualism.<sup>227</sup>

While looking for alternatives, critics of liberalism in Germany as well as Italy called for a strong state, which acted on a self-contained, if possible self-sufficient market devoid of any international impact. These principles characterised the doctrine of autarchy. As an “economic ideal of nationalism”,<sup>228</sup> autarchy should guide the restructuring of the economy in a fundamental way.<sup>229</sup> The objective of economic growth changed, and no longer aimed at “external growth”, because the depression impeded extensive and constant increases in trade. Instead the major objective became “internal growth”.<sup>230</sup>

In the Great Depression, British economist John Maynard Keynes recommended that governments, in particular those seriously hit by the crisis, engage the army of unemployed citizens “to dig holes in the ground and then fill them up”, in order to stimulate domestic

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<sup>223</sup> Quoted in Boelcke, *Deutschland als Welthandelsmacht*, p. 31.

<sup>224</sup> A. Hitler, *Mein Kampf* (München, 1936), pp. 232-233.

<sup>225</sup> The adjective *völkisch* derives from the noun *Volkstum* which literally translates to “folkdom”, which expresses notions such as nation, ethnicity, race and tribe.

<sup>226</sup> B. Kiesewetter, ‘Der europäische Großwirtschaftsraum und der Stand der wirtschaftlichen Zusammenarbeit der europäischen Volkswirtschaften’, *Jahrbuch der Weltpolitik* (1941), pp. 70-89, 71.

<sup>227</sup> See *Jahresberichte der deutsch-italienischen Handelskammer* (1933), p. 11. For the perception of “latinity” in Germany see M. Funk, ‘Italien im Urteil der “Frankfurter Zeitung”’, *Quellen und Forschungen aus italienischen Archiven und Bibliotheken*, 69 (1989), pp. 255-311, 302-303.

<sup>228</sup> H.-E. Volkmann, ‘Die NS-Wirtschaft in Vorbereitung des Krieges: Von der Weltwirtschaft zur Großraumwirtschaft’, in H.-E. Volkmann and B. Chiari, eds., *Ökonomie und Expansion, Grundzüge der NS-Wirtschaftspolitik* (München, 2003), pp. 45-74, 47.

<sup>229</sup> Cf. E. Teichert, *Autarkie und Großraumwirtschaft in Deutschland, 1930-1939* (München, 1984).

<sup>230</sup> Kiesewetter, ‘Der europäische Großwirtschaftsraum’, p. 72.

demand, and ultimately, the entire economy.<sup>231</sup> As a result, governments in the industrialised world resorted to drastic measures to prepare the ground for new economic upswings by improving the desperate labour-market situation.<sup>232</sup> Even abroad there was the impression that Hitler, too, followed the advice of Keynes, and was engaging the unemployed masses to engage in “straightening the Crooked Lake, painting the Black Forest white and putting down linoleum in the Polish Corridor”.<sup>233</sup> What is, however, still not widely known is that he was able to build on the successes of the economic stimulus and job creation programs of the Papen and Schleicher governments, and progressed along the very same path. Neither in format nor in substance did the Nazis add new initiatives to these programmes. Nevertheless, they understood having the measures celebrated by the state propaganda such that the impression of a regime dedicated to work arose. The extent of investments also did not increase significantly, and only 29 per cent of the RM 5.1 billion spent on job creation in the period between 1932 to 1934 was invested after 1933 and the seizure of power.<sup>234</sup>

Next to these continuities in labour market policies of the presidential cabinets of the Weimar Republic and the Hitler government, there was also a significant difference. Hitler regarded economic policy merely as a subcategory of power politics,<sup>235</sup> which served already at an early stage for military build-up and expansion.<sup>236</sup> The successes that eventually were achieved led to a labour shortage in 1937 and gave the illusion that the Nazi job-creation scheme was a sample piece of Keynesian interventionist policy. Such a judgment, however, is misguided, as it fails to take into consideration the nature of the Nazi economic and labour market policy. In contrast to Keynes’ postulation of suspending state intervention once full

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<sup>231</sup> Quoted after W. Abelshauser, ‘Germany. Guns, butter, and economic miracles’, in M. Harrison, ed., *The economics of World War II. Six great powers in international comparison* (Cambridge, 1998), pp. 122-176, 125.

<sup>232</sup> Schivelbusch compares the job-creation programmes of Fascist Italy, Nazi Germany and New Deal US, with an emphasis on similarities. See Schivelbusch, *Entfernte Verwandtschaft*.

<sup>233</sup> J. Robinson, ‘What has become of the Keynesian Revolution?’, in J. Robinson, ed., *Collected Economic Papers* (Cambridge, Mass., 1980), pp. 168-177, 170.

<sup>234</sup> See G. Plumpe, ‘Wirtschaftskrise, Wirtschaftspolitik und Nationalsozialismus’, in K. Malettke, ed., *Der Nationalsozialismus an der Macht* (Göttingen, 1984), pp. 53-84, 77.

<sup>235</sup> On 8 February 1933, Hitler declared that every job-creation measure had to be judged on its importance for the re-militarisation of the German people. See *Akten zur Deutschen Auswärtigen Politik* (ADAP) series C, vol. I, no. 16.

<sup>236</sup> Cf. Abelshauser, ‘Germany. Guns’, pp. 127, 131; A. Tooze, *Ökonomie der Zerstörung* (München, 2007), pp. 754-755. A 2014 input-output analysis based on hitherto unnoticed, original material produced by Germany’s statistical office in 1936 depicts clearly the effects rearmament had on production and employment. Already in 1936, more than 7 per cent of the work force was directly or indirectly engaged in war preparation. The military budget amounted to 11 per cent of Germany’s GDP. See R. Fremdling and R. Staeglin, ‘Output, national income, and expenditure: an input-output table of Germany in 1936’, *European Review of Economic History*, 18, 4 (2014), pp. 371-397, 385-388.

employment is nearly achieved, the measures had to continue to contribute to the armament programs.

The Italian state responded in a similar way once the demand situation deteriorated in the private sector and unemployment became a threat to broad sections of the population. With a number of publicly funded projects, for example, new land was cultivated. As in the case of the reclamation of the Pontine Marshes, which had been attempted already in ancient Rome, state propaganda accompanied these initiatives with triumphal proclamations. Initiatives such as the expansion of the Italian road network and especially the connection of commercial centres by road highways also served as a model for investments in Germany.<sup>237</sup>

To combat the effects of the economic crisis, the fascist regime went beyond the fields of labour-market and monetary policies, which were reformed somehow in almost every crisis-affected country. Under the policy of corporatism, the regime interfered severely in the relationship between the state and private sector. Mussolini used corporatism as a tool to organise and standardise the productive forces, to increase wealth, power and the well-being of the Italian nation.<sup>238</sup> Since the early years of the fascist movement, opinion leaders had demanded a union of workers, employees and enterprises of the same production sector in one corporation.<sup>239</sup> The private initiative of entrepreneurs and private capital should be maintained, but fully benefit the interest of the nation. According to Minister of Justice Alfredo Rocco, the state assumed the role of “watchdog” over the corporate economy, which neither gives in to market forces, nor takes control of the entire production.<sup>240</sup> With this definition, Rocco separated corporatism from classical liberalism on the one hand and socialism on the other, which was a typical element of fascist thinking and propaganda claiming to represent the “third way”.<sup>241</sup>

The implementation of the concept lagged far behind ambitions, and for many years struggled for consensus. Only the economic crisis generated considerable impetus for change. With the economic constitution of 1934, 22 corporations were created, divided along sector lines, whose impact on the paper, however, was still far stronger than it was in real economic

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<sup>237</sup> See *Jahresberichte der deutsch-italienischen Handelskammer* (1932), p. 35.

<sup>238</sup> B. Mussolini, *Lo stato corporativo* (Firenze, 1936), p. 9.

<sup>239</sup> Mussolini used this term already in 1921 during his famous speech on the piazza San Sepolcro. See *Jahresberichte der deutsch-italienischen Handelskammer* (1933), p. 25.

<sup>240</sup> Quoted in A. Lyttelton, ed., *Italian fascism from Pareto to Gentile* (London, 1973), p. 294.

<sup>241</sup> Cf. S. Bastow and J. Martin, *Third way discourse: European ideologies in the twentieth century* (Edinburgh, 2003).

life.<sup>242</sup> Of far greater relevance for the private sector was the founding of the *Istituto per la ricostruzione industriale* (Institute for Industrial Reconstruction IRI). The core business of the public holding company included the reorganisation of the debt market, which had gotten into difficulties in response to the banking crisis, as well as winding up collapsed companies. The institute, originally intended as a temporary solution, was eventually able to play a decisive role in the Italian industry. As early as 1933, it controlled about 48.5 per cent of the Italian stock capital.<sup>243</sup> With IRI, the fascist regime was able to implement its preference for big businesses, and to launch consolidations in the sectors deemed strategically important.<sup>244</sup>

Typically, the corporate elites were not concerned about the large-scale state involvement. Although it happened that besides the financial involvement, structural changes up to the appointment of a “trusted board” were enforced,<sup>245</sup> the majority of entrepreneurs appreciated the state becoming a shareholder. Particularly those sectors could benefit that had been less attractive for private capital.<sup>246</sup> The position of the entrepreneurs was strengthened by the appointment of its lobby organisation *Confindustria*, which had been in operation since 1910, to an official body the economic administration.<sup>247</sup> Henceforth, the entrepreneurs were committed in inter-ministerial and inter-corporate committees and further strengthened the ties between the state and private businesses.<sup>248</sup>

According to the Duce, the policy of autarchy was not to be satisfied with influencing the private business sector, but should “come close to the people – reducing the distance”.<sup>249</sup> The consequence was a direct influence of the state on its citizens’ production and consumption. Productions were no longer assessed solely by virtue of their cost efficiency, but also by taking political objectives into consideration. Thus, the current pricing mechanism of

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<sup>242</sup> See R. Petri, *Storia economica d’Italia. Dalla Grande Guerra al miracolo economico (1918-1963)* (Bologna, 2002), p. 104.

<sup>243</sup> IRI’s involvement differed between the sectors. In iron- and steel production for armament purposes, and coal production IRI held 100 per cent of shares; In ship construction 90 per cent, and in railway construction 80 per cent. See Zamagni, *The economic history of Italy*, p. 300.

<sup>244</sup> See L. Segreto, ‘Industrial Capitalism and Political Constraints. The Bureaucratization of Economic Life during the Fascist Regime’, in Kobrak and Hansen, *European business*, pp. 223-234, 234.

<sup>245</sup> See Toniolo, *L’economia*, p. 253.

<sup>246</sup> See R. Petri, *Von der Autarkie zum Wirtschaftswunder. Wirtschaftspolitik und industrieller Wandel in Italien 1935-1963* (Tübingen, 2001), p. 104.

<sup>247</sup> See A. Raspin, *The Italian war economy 1940-1943. With particular reference to Italian relations with Germany* (New York, 1986), p. 38; Zamagni, *The economic history of Italy*, p. 241.

<sup>248</sup> See Petri, *Von der Autarkie*, p. 107. Cf. F.H. Adler, *Italian industrialists from liberalism to fascism: The political development of the industrial bourgeoisie, 1906-1934* (Cambridge, 1995), pp. 387-436.

<sup>249</sup> Quoted from Guarneri, *Autarkie*, p. 12. Guarneri considers this programme as crucial for the social policy not only of Fascist Italy, but also of Nazi Germany.



a market economy was undermined and replaced by centrally planned economy elements, as they were formulated in the autarchy plans of 1935/36.<sup>250</sup>

Italian fascism, and especially its corporatist organisation of the economy, was perceived in the late Weimar Republic as exceptionally modern.<sup>251</sup> The most widely recognised experts among the many admirers of Italian fascism in Germany were Ludwig Bernhard, professor of economics in Berlin; representatives of the Ordoliberalismus<sup>252</sup> such as Erwin von Beckerath and Alfred Müller-Armack, and publicists like Fritz Schotthöfer and Hans Reupke.<sup>253</sup> The image of a state, able to organise the economy according to its political goals, was heavily supported by the fascist propaganda.<sup>254</sup> From Italy, the emigrated German sociologist Robert(o) Michels, who became in 1928 a professor of economics and corporatism at the University of Perugia, actively influenced the perception of fascism in Germany.<sup>255</sup> Moreover, the multipliers of Italian fascism in Germany often possessed institutional affiliations that supported their cause. Hans Reupke's publishing activities, for instance, were assisted by the Club von Berlin, a social club for Berlin's avant-garde.

A similar institution was the Society for the Study of Fascism (Gesellschaft zum Studium des Faschismus, GSF). The club was founded in 1931 by the right wing agitator and weapons trader Waldemar Pabst to discuss and stimulate transfers from Fascist Italy.<sup>256</sup> The extraordinary line-up – many of whom are mentioned elsewhere in this thesis – consisted of prominent economic experts like Max Hahn (head of the Mitteleuropäischer Wirtschaftstag) and Hjalmar Schacht (president of the Reichsbank); future top government officials of the Nazi Regime like Herman Göring and Walther Funk (minister for economics; right-wing party

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<sup>250</sup> The autarchy plans elucidated the regime's prerogative: acquisition of raw materials for the event of war, avoidance and reduction of foreign debt, production of substitute products and self-sufficiency in nutrition. See Petri, *Von der Autarkie*, p. 63.

<sup>251</sup> Already in 1923, when the galloping inflation threatened the social order in Germany, the business magnate Hugo Stinnes prophesied a "Mussolinism" in Germany. See G.D. Feldman, *Hugo Stinnes: Biographie eines Industriellen 1870-1924* (München, 1998), p. 887. For the business transactions Stinnes conducted together with Italian and Austrian partners, see P. Tiedtke, 'Hugo Stinnes (1870-1924)', in P. Borman, J. Michel and J. Scholtyseck, eds., *Unternehmer in der Weimarer Republik* (Stuttgart, 2015).

<sup>252</sup> Ordoliberalism tried to rescue liberalism in the midst of the world economic crisis by emphasising the role of state as a guarantor of the free market. Cf. R. Ptak, *Vom Ordoliberalismus zur sozialen Marktwirtschaft: Stationen des Neoliberalismus in Deutschland* (Opladen, 2004).

<sup>253</sup> Cf. Schieder, 'Der Faschismus als Vorbild', pp. 73-125; Funk, 'Italien im Urteil'.

<sup>254</sup> See for instance, AI Berlino to MAE, 'Conferenze di Propaganda in Germania', 23 Apr 1932, ASMAE, Società delle Nazioni, busta 98.

<sup>255</sup> Genett mentions in his biography on Michels that the impact of Michels on the reception of fascism in Weimar Germany would be "worth a separate study". T. Genett, *Der Fremde im Kriege: Zur politischen Theorie und Biographie von Robert Michels 1876-1936* (Berlin, 2008), p. 783.

<sup>256</sup> Pabst tried to found a "white international" and commissioned the assassination of Rosa Luxemburg and Karl Liebknecht. See K. Gietinger, *Der Konterrevolutionär: Waldemar Pabst - eine deutsche Karriere* (Hamburg, 2009).

politicians such as the head of the Stahlhelm Theodor Dusterberg; and prominent businessmen like Günther Quandt<sup>257</sup> and Fritz Thyssen.<sup>258</sup> To the board of the GSF it was clear that, “in consideration of the different national [völkisch], economic and cultural conditions in Germany and Italy, a fascist Germany must resemble Fascist Italy in its general structure, but differ in the institutionalisation of detailed political and economical practises”.<sup>259</sup> The workshops of the GSF compared, for instance, Mussolini’s fascism with the Kemalist state in Turkey, and tried to draw conclusions for the reform of a detested Weimar Republic.<sup>260</sup> For its work, which doubtlessly provided a positive image of Fascist Italy abroad, and which therefore was supported by Mussolini’s middleman Renzetti,<sup>261</sup> the GSF was able to draw funds and information from the Italian foreign ministry.<sup>262</sup> Yet, once the Nazis came into power, the GSF was dissolved no later than December 1933 because its main political goal, the authoritarian transformation of the Weimar state, was now the state’s main task, and the Nazi regime did not intend to share this responsibility.<sup>263</sup>

The end of the GSF, however, did not change Fascist Italy’s character as a source of inspiration for economic reforms in Germany. Especially the large-scale state intervention in the economy carried out by IRI induced fascination in a country with big companies shaken by the global crisis and a regime obsessed with obtaining totalitarian control of the society. The German ambassador in Rome, Ulrich von Hassell, reckoned that, “the leadership of IRI is the decisive voice of the economy and its controlling state”.<sup>264</sup> When IRI started its operations in the Italian banking sector, Germany’s newspapers of record observed attentively.<sup>265</sup> Moreover, the Akzeptbank AG, a public-private institution found in the midst of the banking crisis by the Reichsbank and many private banks in order to inject liquidity into the financial markets, soon acquired new competencies. Apparently modelled on the Italian experience, it

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<sup>257</sup> He was the head of the working group on job-creation measures. See J. Scholtyseck, *Der Aufstieg der Quandts: Eine deutsche Unternehmerdynastie* (München, 2011), p. 261.

<sup>258</sup> GSF, ‘Mitgliederverzeichnis der Gesellschaft zum Studium des Faschismus’, n.d., BArch, R 72/260.

<sup>259</sup> GSF, ‘Aufgabe und Ziele’, n.d., BArch, NY 4035/7. For the differences between Italian and German corporatism, cf. C. Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany and Italy in the Decade after World War I* (Princeton, 1975).

<sup>260</sup> GSF, ‘Vorläufiges Winterprogramm’, 26 Sep, BArch, NY 4035/7.

<sup>261</sup> Renzetti’s propagandistic endeavours in search of a positive depiction of the Fascist Italy’s economy also included publications in German. Cf., for instance, G. Renzetti, *Italiens Finanzpolitik* (Leipzig, 1934).

<sup>262</sup> MAE to AI Berlino, 5 April 1933, ASMAE, AP, Germania, busta 20.

<sup>263</sup> Pabst was arrested by the Gestapo, but eventually released following his agreement to reduce his political work. See M. Wichmann, ‘Die Gesellschaft zum Studium des Faschismus. Ein antidemokratisches Netzwerk zwischen Rechtskonservatismus und Nationalsozialismus’, *Bulletin für Faschismus und Weltkriegsforschung*, 31/32 (2008), pp. 72-104, 100-103.

<sup>264</sup> U. von Hassell, *Südosteuropa. Bemerkungen zum Ausgleich der deutschen und italienischen Wirtschaftsinteressen* (n.p., 1941), p. 25.

<sup>265</sup> See, for instance, ‘Die SIP-Sanierung’, *Frankfurter Zeitung*, 18 Nov 1933.

started to use the leverage of its growing funds to favour certain initiatives in industry over others, thus providing a window of opportunity for the public hand to get a grip on the economy.<sup>266</sup> The Reichsbank under its president and close observer of Italian fascism, Hjalmar Schacht, repeatedly asked the Banca d'Italia about IRI's reconstruction of the Italian economy.<sup>267</sup>

Hitler told Renzetti, Mussolini's long arm in Berlin, that he himself was studying the measures Italian corporatism suggested to overcome the tensions between the social partners in industrial relations, and eventually the plight of the unemployed.<sup>268</sup> What was more, like the fascist regime in Italy, the Nazis did not rest satisfied by boosting the economy by reducing unemployment. Guided by the idea of autarchy, the economic experts of the NSDAP developed a programme that would improve production by means of a better utilisation of the "German soil". The spatial concept of "German soil" was intertwined with the ideological core concept of National Socialism, which foresaw that a growing German nation had to conquer "*Lebensraum*" (living space) in the East. The concept of "*Lebensraum*" was developed already during the movement phase of the NSDAP in the 1920s. But it was the experience of the Great Depression that induced the party to transfer ideology to an economic model. The party experts doubted that the old pattern of international free trade would have the potential to increase the prosperity of the German people, and propagated instead a large, self-sufficient economic area under German leadership, including the countries of Eastern Europe.<sup>269</sup> "Internal growth", therefore became, as in Fascist Italy, the goal of economic intervention.<sup>270</sup>

In order to further stimulate growth, as well as to get a grip on those industries deemed of strategic importance, the Nazi regime transformed the economic system. A contemporary edition of the encyclopaedia *Neue Brockhaus* describes the restructuring in that henceforth "the state leads and directs", but still grants "independence and responsibility" to the economic operators in their specific sector.<sup>271</sup> The theory saw the "*Führer*" at the top of the economic government, directing the affairs of the national economy by appropriations.

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<sup>266</sup> Cimino (BdI Berlino) to Azzolini (BdI), 2 Mar 1933, Archivio Storico Banca d'Italia, Fondo Studi, cart. 156, fasc. 1.

<sup>267</sup> Cimino (BdI Berlino) to Azzolini (BdI), 4 Jul 1933, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 230.

<sup>268</sup> Renzetti, 18 Nov 1931, Bundesarchiv Koblenz, NL 1235/10.

<sup>269</sup> See Volkmann, 'Die NS-Wirtschaft', p. 52.

<sup>270</sup> J. Kölbl, *Grundzüge der neuen deutschen Wirtschaftsordnung* (Leipzig, 1941), p. 24.

<sup>271</sup> Quoted in H.-E. Volkmann, 'Zum Verhältnis von Großwirtschaft und NS-Regime im zweiten Weltkrieg', in Volkmann and Chiari, *Ökonomie und Expansion*, pp. 75-102, 76.

*Eigennutz* (self-interest), as the private initiative was labelled, was granted to the business leaders, and even encouraged.<sup>272</sup> However, it was only allowed if it would not work against the “public interest” of the German people, for whom the “*Führer*” intended the military expansion.

National Socialism presented the private sector, weakened by the shock of the economic crisis, a system that differed significantly from the liberal concept of a free market economy. In spite of popular impressions that the NSDAP had come to power especially with the support of industrial magnates, the business community before 1933 showed a wide range of political attitudes, ranging from open support and opportunistic admiration, to scepticism among some established industrial elites, and a very low number of supporters of the resistance.<sup>273</sup> In the corporatist institutions for economic self-management (*wirtschaftliche Eigenverantwortung*) of the National Socialist state, the entrepreneurial knowledge was concentrated and connected with state bureaucracy.<sup>274</sup> From then on, this network of government agencies and private stakeholder decided on production and sales. Success or demise of a company no longer depended on observation and interaction with market development, but on negotiation skills to be used in the committees of the corporatist economy. Against the background of the economy, which was since the second half of the 1930s running at full capacity, and thus experienced a shortage of skilled workers and raw materials, co-ordination became even more important. The state interfered in a rigid way into the price mechanism of the market economy by freezing wages and prices. Henceforth, the forced control of the economic process limited the market system in such a way that the political objective of rearmament took absolute pre-eminence.<sup>275</sup>

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<sup>272</sup> See Kölble, *Grundzüge*, p. 10.

<sup>273</sup> See G. Plumpe, ‘Wirtschaftskrise, Wirtschaftspolitik und Nationalsozialismus’, in K. Malettke, ed., *Der Nationalsozialismus an der Macht* (Göttingen, 1984), p. 248.

<sup>274</sup> Kölble, *Grundzüge*, pp. 17-21.

<sup>275</sup> The heterogeneity of regulatory measures instituted by the Nazi regime has made it difficult for historiography to come up with a final judgement of its economic policy. See G. Ambrosius, ‘Was war eigentlich “nationalsozialistisch” an den Regulierungsansätzen der dreißiger Jahre?’, in W. Abelshäuser, J. O. Hesse, and W. Plumpe, eds., *Wirtschaftsordnung, Staat und Unternehmen. Neuere Forschungen zur Wirtschaftsgeschichte des Nationalsozialismus* (Essen, 2003), pp. 41-61, 56; Buchheim and Scherner argue that the economic system was a “controlled market economy”. See C. Buchheim and J. Scherner, ‘Anmerkungen zum Wirtschaftssystem des „Dritten Reichs“’, in *ibid.*, pp. 81-97, 97. Diehl instead asserts that it rather resembles the ideal type of a “centrally planned economy”. See Diehl, *Von der Marktwirtschaft*, p. 179.

### ***3. Institutional Change in Foreign Trade***

The regimes in Germany and Italy were quite aware of the possibilities and limits of autarchy. Hitler proclaimed to the newly elected *Reichstag* on 23 March 1933 “that the geographical location of resource-poor Germany would not allow a perfect form of self-sufficiency for the German Reich”, and that Germany therefore still needed “connections with the world”.<sup>276</sup> The biggest obstacle for Germany’s march to autarchy, the lack of raw materials, inhibited Italian plans for self-sufficiency to a much greater extent. Striving to put the Italian dependence on foreign energy sources into perspective, Mussolini emphasised in 1936 that, “no nation in the world would be able to realise on its own territory the ideal of economic autonomy in an absolute sense”.<sup>277</sup>

Sure enough, both dictators understood that they remained dependent on their foreign trade relations if they did not want to give up their expansionist aspirations. The Grand Council of Fascism, the central government body of Fascist Italy, defined foreign commerce as a “matter of public interest” whose “control [...] therefore would be justified”.<sup>278</sup> The German government developed a similar ambition to maintain and extend German exports, and transformed foreign trade into a political instrument.<sup>279</sup> A crucial requirement was that, as in the domestic economy, the economic operator should not only make transactions across national borders for its personal advantage, but always keep in mind the “social needs of the nation”.<sup>280</sup>

In order to realise this requirement, the instrument of quotas was applied. Not only in totalitarian countries did the trend to increase protectionism, existing since the end of World War I, enter during the Great Depression into a new phase.<sup>281</sup> In contrast to the previously common protectionist barriers that mainly promoted or impeded the import of certain goods with customs tariffs, whereby demand was only indirectly influenced by state intervention, quotas regulated exactly in weight and quantities how much of one good was permitted to be traded. Quotas became institutionalised with trade agreements between the governments, and displaced the pricing mechanism based on supply and demand. As a result, quotas sparked

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<sup>276</sup> M. Domarus, ed., *Hitler. Reden und Proklamationen 1932–1945* (Wiesbaden, 1973), p. 234.

<sup>277</sup> Quoted in Petri, *Von der Autarkie*, p. 123.

<sup>278</sup> Guarneri, *Autarkie*, p. 13.

<sup>279</sup> See Kölble, *Grundzüge*, p. 39.

<sup>280</sup> Guarneri, *Autarkie*, p. 13.

<sup>281</sup> See Toniolo, *L'economia*, p. 163.

cases in which the economic operator refrained from exploiting the quota volume since it was no longer profitable.<sup>282</sup>

In Germany, foreign trade experts of the AA (ministry of foreign affairs) responded already a few months after Hitler's seizure of power, and looked into the existing trade agreements in order to reorganise imports to Germany with a quota system.<sup>283</sup> Dealing with the domestic economy also required diplomatic skills, as the agricultural sector detected in this instrument a suitable protection against the import of cheaper agricultural products, and insisted on its widespread implementation. Thereby, agricultural interests opposed German industries with a strong export interest. The latter feared that the quota system would disturb their established global network of raw material suppliers. Italy, which depended even more than Germany on imports, did not follow the quota trend until 1934, when it adopted the same protectionist path.<sup>284</sup>

Initially, the governments of Germany and Italy felt inclined to introduce quotas due to the development of foreign exchange reserves, which became a fundamental problem of both economies.<sup>285</sup> During the economic crisis, the two import-dependent economies had to deal with drastically declining demand for their export products and the withdrawal of foreign capital. By 1934, the German balance of payments turned negative.<sup>286</sup> At that point, Germany shared a problem with Italy, which, although its balance had been long negative, faced an ever-worsening situation since 1933 (see Table 1). In order to stop the rapid decline of foreign exchange reserves, and to secure the remaining funds for the import of indispensable goods, the government decided to implement even harsher import controls.

In July 1934, the president of the *Reichsbank*, Hjalmar Schacht,<sup>287</sup> was appointed provisional minister for economic affairs, and charged with the crucial task of solving the armament-related currency problem.<sup>288</sup> His "new plan" was based on the principle that German producers made their orders "always there, where [they] can exchange them for their

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<sup>282</sup> See Boelcke, *Deutschland als Welthandelsmacht*, p. 20.

<sup>283</sup> See Dengg, *Deutschlands Austritt*, p. 346.

<sup>284</sup> See S. Frech, *Clearing: Der Zahlungsverkehr der Schweiz mit den Achsenmächten* (Zürich, 2001), p. 68.

<sup>285</sup> See Boelcke, *Deutschland als Welthandelsmacht*, p. 22.

<sup>286</sup> Between 1929 and 1934, the German reserves of gold and foreign exchange fell from RM 2.5 billion to RM 165 million. See W. Abelshauser, Germany. Guns, butter, and economic miracles, in M. Harrison, ed., *The economics of World War II. Six great powers in international comparison* (Cambridge, 1998), pp. 122-176, 141. The Banca d'Italia is expected to have lost only in November 1934 gold to the amount of L. 110 million. See Frech, *Clearing*, p. 69 (fn. 120).

<sup>287</sup> Cf. J. Scholtyseck, 'Hjalmar Schacht 1877-1970', in H. Pohl and T. Beckers, eds., *Deutsche Bankiers des 20. Jahrhunderts* (Stuttgart, 2008), pp. 357-371.

<sup>288</sup> See C. Kopper, *Hjalmar Schacht: Aufstieg und Fall von Hitlers mächtigstem Bankier* (München, 2006), p. 255.

own goods”.<sup>289</sup> State authorities now controlled the entire flow of imports, and allocated strategically important raw materials to the producers.

In Italy, Felice Guarneri, who was not only director of the *Banco di Roma* but also president of *Confindustria*, was entrusted with the government control over foreign exchange reserves. In accordance with the fundamental principles of Germany’s “new plan”, the state was meant to ensure that Italy was importing only as many goods as it was able to pay for with its own exports. For this purpose, the government established the *Istituto nazionale per i cambi con l'estero* (Istcambi), and Guarneri became the “foreign exchange dictator”,<sup>290</sup> who watched over Italy’s foreign trade.

As a logical consequence of the declared goal, to pay imports no longer in gold or foreign currency, foreign trade experts developed an instrument which became one of the most constitutive elements of economic relations between the Great Depression and World War II: clearing agreements. A general definition is difficult because, as will be described with the examples of the thesis, different types of clearing agreements served different purposes.<sup>291</sup> Nevertheless, the rationale of an agreement was that the importers in country X paid for their orders from country Y in local currency to a domestic clearing office (e.g. at the central bank of X). This office then paid exporters of country X from its collected funds. The same offsetting occurred in country Y. Therewith, the agreement allowed for trade between two countries without tapping the foreign exchange reserves.<sup>292</sup>

By 1930 the instrument was already infamous. It has been depicted by its contemporary witness and scholarly investigator, Albert O. Hirschman, as one of the major weapons in the hands of Nazi Germany’s domination over Europe.<sup>293</sup> However, it was first employed by Switzerland. In November 1931, Switzerland signed clearing agreements with Austria and Hungary, and soon became the “pacemaker of clearings”, according to a contemporary German author.<sup>294</sup> The experts who put the clearings into practise saw the deficiencies in comparison with free trade. The economist G.W.J Bruins, a specialist on the

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<sup>289</sup> H. Schacht, *Deutschland und die Weltwirtschaft* (München, 1935), p. 27.

<sup>290</sup> Quoted in Petri, *Von der Autarkie*, p. 86.

<sup>291</sup> A cursory overview of the different types of clearing is given by Frech, *Clearing*, pp. 32-36. The League of Nations produced a chronological overview of signed clearing agreements. See Joint Committee For The Study Of Compensation And Clearing Agreements, 13 Mar 1935, LON, R4400.

<sup>292</sup> Cf. M. Tomz, *Reputation and international cooperation: Sovereign debt across three centuries* (Princeton, 2007), 189.

<sup>293</sup> See A.O. Hirschman, National power and the structure of foreign trade, *Studies in international political economy* (Berkeley, 1980), pp. 34-40.

<sup>294</sup> See Frech, *Clearing*, pp. 26, 30.

Dutch clearings, emphasised that, “even the best bilateral settlement is inferior to an international payment system, with its almost automatic multi-directional liquidation of debts”.<sup>295</sup> Equally critical was Felice Guarneri, who was responsible for the Italian clearing agreements. In his treatise on autarchy and foreign trade he described clearings as inevitably rigid, and therefore most likely to hamper trade.<sup>296</sup> Even Hitler, who proclaimed at a party convention in 1936 that he would transform clearing agreements into a “free and modern business”, had to admit that they still looked like “prehistoric bartering agreements”.<sup>297</sup> More negative accounts could be easily identified, and yet, against all odds they became very popular.

Many countries facing the collapse of the gold standard considered clearing agreements to be the only alternative. The *raison d’etre* lay in the widespread introduction of foreign exchange controls, which dramatically changed the logic of trade. In the area of international free trade, governments had paid attention mostly to the flow of goods, facilitated by commercial treaties on the basis of the most-favoured-nation clause, and only secondarily to the flow of payments. In the early 1930s, it was the other way around. To guarantee the flow of payments and protect their countries from insolvency, governments unilaterally introduced foreign exchange controls, which cut deep into the established fabric of trade relations. The clearing agreements, then, offered the possibility of limiting the negative consequences at least for selected bilateral trade relationships. In addition, with maximised government influence on trade, and the possibility for preferential (or discriminatory) treatment of certain trading partners, the clearing agreements became a “dreadful commercial weapon”.<sup>298</sup>

This “commercial weapon” was employed in different ways, however. For the “pacemaker” Switzerland, the clearings served initially only as a means to protect creditor interest by safeguarding the flow of payments. Germany’s experimental clearing agreements of 1931/32 regulated the exchange of certain goods considered essential and at risk due to Germany’s foreign exchange controls. After the political watershed of 1933, clearing

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<sup>295</sup> G.W.J. Bruins, ‘Clearing. Einige allgemeine Bemerkungen über Clearingverträge und die in den Niederlanden hiermit gemachten Erfahrungen’, *Berliner Börsenzeitung*, 24 Apr 1937. The article interested the Berlin-based representative of the Banca d’Italia, Antonino Cimino, who was at the same time representative of Italy’s foreign trade and payments institute Iscambi. In this dual role he was a close observer of trade and payments between Germany and Italy.

<sup>296</sup> Guarneri, *Autarkie*, p. 13.

<sup>297</sup> Quoted in Boelcke, *Deutschland als Welthandelsmacht*, p. 24.

<sup>298</sup> G.W.J. Bruins, ‘Clearing. Einige allgemeine Bemerkungen über Clearingverträge und die in den Niederlanden hiermit gemachten Erfahrungen’, *Berliner Börsenzeitung*, 24 Apr 1937.



agreements eventually covered the entire flow of goods and payments and can be classified in two categories according to their geographical distribution. The first one, labelled the “Western type”, was primarily concerned with cushioning the negative consequences of foreign exchange controls on imports to Germany, and to prevent retaliation from its trading partners, especially from those with financial claims. In contrast, the second, or “Eastern/Southeastern type”, intended to safeguard Germany’s exports in times of difficulty.<sup>299</sup> For the Italian clearing strategy, Bientinesi has argued that it was initially driven by the purpose to secure Italy’s export markets (similar to the “Eastern/Southeastern type”). Later in the 1930s it became a measure to protect its domestic market (and therefore akin to Germany’s “Western type”).<sup>300</sup>

With the introduction of foreign exchange controls, quotas and clearings, Felice Guarneri reckoned that the most-favoured-nation clause, a pillar of foreign trade relations in the liberal era, had lost its meaning. No longer did the best price determine demand and sales, but the political proximity of two states that had given their economic relationship the appropriate institutional design. Using these commercial instruments, politics formed the economic foundations of the “Rome-Berlin Axis”.

On both sides of the Alps, the regimes built up a dense network of public authorities and semi-governmental organisations, which also controlled the German-Italian commercial relationship. The new commercial instruments changed the distribution of power within the administrative structure. Traditionally, Germany’s foreign relations, whether political, cultural or economic, fell within the business of the ministry of foreign affairs (*Auswärtiges Amt*, AA). In the 1920s, the AA established a special unit W, which was responsible for fundamental economic and commercial issues, and intruded in the competencies of ministry of economics (*Reichswirtschaftsministerium*, RWM).<sup>301</sup> With Hitler’s seizure of power, however, the sphere of influence changed at the expense of the AA. Hitler appointed the president of the *Reichsbank*, Hjalmar Schacht, as special envoy to negotiate with the US and entrusted him to lead the German delegation at the London Economic Conference in June/July 1933. Hitler – not only in the conclusion of bilateral clearing agreements – preferred the direct and discreet meeting between representatives of two states over a more open process. For this purpose, the

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<sup>299</sup> K. Ritter, ‘Germany’s Experience with Clearing Agreements’, *Foreign Affairs*, 14, 1 (1935/36), pp. 465-475; H. Elsler, *Währung und Aussenhandel*, (Köln 1939), p. 99. For a contemporary evaluation of Germany’s clearing agreements, see H. Werner, *Die deutschen Verrechnungsabkommen in den Jahren 1932/34* (Dortmund, 1936).

<sup>300</sup> Bientinesi, *La politica commerciale italiana*, p. 220.

<sup>301</sup> Dengg, *Deutschlands Austritt*, p. 420.

regime established the position of special envoys, who conducted negotiations alongside the traditional career diplomats.

As one of the major administrative bodies behind the bilateralisation of trade, the German compensation fund (*Deutsche Verrechnungskasse*, DVK) was established on 16 October 1934. It was an independent bank and subordinated to the RWM. Since the DVK managed most of the governmental clearing accounts, it became one of the central reference points of bilateral foreign trade.<sup>302</sup> In the years 1932-1934, the offsetting of imports and exports had been handled by the *Reichsbank*. But it was neither legally empowered to secure the financing of foreign trade, nor was it able to cope any longer with the increased administrative burden and the complexity of the clearing arrangements.<sup>303</sup> In the first year of its existence, the DVK grew tremendously and was, with its 1,200 employees who managed 17,000 account transactions per day, an impressive example of government interference and bureaucratisation of foreign trade.<sup>304</sup> To pay for their imports, the German merchants had to refer to the subordinated office relevant to their industry in order to obtain a “certificate of currency”.<sup>305</sup> These measures were intended to concentrate decision-making powers a monopoly of decision in order to prevent an uncontrolled outflow of foreign funds.

The AA was still in charge of the national office for foreign trade (*Reichsstelle für den Außenhandel*). It was founded on 18 October 1933,<sup>306</sup> and designated as the central organ of foreign trade promotion. Its scope of duties included the monitoring of foreign markets, the development of expertise for the German export economy and consulting services to the AA and the RWM. The body served as a contact point for the German economy, and represented German interests in foreign markets with a triad of consular posts, representations of the foreign organisations of the NSDAP and the chambers of commerce.<sup>307</sup>

The network constituted by the chambers of commerce experienced a change of meaning, too. The German-Italian chamber of commerce was a private initiative of German merchants in Milan, founded in 1921.<sup>308</sup> In 1934, it was converted into a national German

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<sup>302</sup> James has argued that after in the 1920s the German banking system had been torn apart once, it was adapted in the 1930s for the second wave of large-scale intervention. See H. James, ‘Banks and bankers in the German depression’, in Y. Cassis, ed., *Finance and financiers in European history, 1880 - 1960* (Cambridge, 1992), pp. 263-279, 279.

<sup>303</sup> See Werner, *Die deutschen Verrechnungsabkommen*, p. 35.

<sup>304</sup> See Frech, *Clearing*, p. 88.

<sup>305</sup> On the whole, there were 30 authorities divided by sectors. See Kölble, *Grundzüge*, p. 89.

<sup>306</sup> *RGBl*, 1933 I, pp. 743-746.

<sup>307</sup> See Kölble, *Grundzüge*, p. 39.

<sup>308</sup> See Deutsch-Italienische Handelskammer, ‘Geschichte’, available: <[http://www.ahk-italien.it/ueber-](http://www.ahk-italien.it/ueber)

chamber of commerce for Italy, which had to support the Nazi regime's export initiative in order to improve the German foreign exchange situation. The Italian autarchy plans and the German "new plan" stipulated that its scope of duties now encompassed legal and administrative advice to merchants, who were overwhelmed by government bureaucracy. The funding changed as well. While initially it was supported by members' contributions, it increasingly relied on public funds.<sup>309</sup> Thus, the development of the German-Italian chamber of commerce describes the process of state paternalism in foreign trade on a small scale.

The Italian situation in the early 1930s gives a confusing picture of the responsibilities of the various institutions and authorities dealing with foreign trade. The regime changed the divisional structure of the ministry of foreign affairs (*Ministero degli Affari Esteri*, MAE) in 1932, and created a separate division for commercial affairs.<sup>310</sup> Major reform impetus was provided only a few months after the Nazi regime changed its administrative control of foreign trade. Fundamental policy decisions were now made by the ministry of corporations (*Ministero delle Corporazioni*, MCorp). The MCorp was celebrated at its formation in 1926 as a milestone of fascist economic policy, then sank into oblivion for many years, and only gained major responsibilities in 1934. The ministry of finance, in turn, controlled the import quotas. Reminiscent of the *Reichsbank-DVK* relationship, the foreign currency holdings and the process of clearing transactions were controlled by the central bank *Banca d'Italia* in collaboration with the *Istituto nazionale per i cambi con l'estero* (Istcambi), which had branches in the commercial centres of Italy's major trading partners. The counterpart of the German *Reichsstelle für den Außenhandel*, the *Istituto nazionale per l'esportazione* (INE), had been founded in 1926 as part of the "quota 90", and the subsequent "battle of exports". It co-ordinated private initiatives by collecting and publishing economic and trade information, resolving technical and logistical issues of trade and regulating the banking and insurance aspects of foreign trade.<sup>311</sup> In the administration of foreign trade, INE sometimes competed with Istcambi.<sup>312</sup>

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uns/geschichte/> (retrieved 16 Jul 2015).

<sup>309</sup> Deutsch-italienische Handelskammer, ed., *Festschrift zum vierzigjährigen Bestehen* (Frankfurt a.M., 1961), pp. 18-20.

<sup>310</sup> See A. Cassels, *Italian foreign policy, 1918 - 1945: A guide to research and research materials* (Wilmington, 1991), p. 7.

<sup>311</sup> After 1936, it was renamed *Istituto nazionale fascista per il commercio estero*. See S. Nocentini, 'Alle origini dell'Istituto nazionale per il commercio estero', *Passato e presente*, 66 (2005), pp. 65-88.

<sup>312</sup> See G. Farese, *Dare Credito all'Autarchia. L'IMI e l'Politica Industriale del Fascismo, 1936-1943* (Roma, 2008), p. 75.

It took a little more than a year until the regime realised that the overlapping responsibilities and complex co-ordination between the authorities caused frictional losses. To deal with this, on 23 May 1935 the regime set up the *sovrintendenza allo scambio delle valute* (superintendence for trade and foreign exchange), which supervised all actions regarding economic relations from Mcorp, Istcambi, and INE. The authority quickly gained in importance. By December 1935 it was upgraded to an under-secretariat, and finally in 1937 to the *Ministero per gli Scambi e le Valute*. Besides supervising the export institute and the foreign exchange authorities, the new ministry provided the commercial attaches of the Italian embassies and exercised control over the chambers of commerce.<sup>313</sup> The leadership of the authority was assumed by “foreign exchange dictator” Felice Guarneri. At both bridgeheads of the German-Italian economic relationship, the presidents of the central banks assumed their positions as guardians of foreign exchange and external trade. The following Part I analyses how these new institutional settings changed the German-Italian economic relationship.

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<sup>313</sup> See P. Kestenholz, *Aussenhandel und Aussenhandelspolitik Italiens in der Zeit von 1934 bis 1939* (Zürich, 1943), pp. 113-114.

# Part I: Becoming Partners? Bilateral Economic Rapprochement 1929-1936

## Chapter 2: Failing Attempts in the Reconstruction after the Crash

### *Introduction: The Situation in 1929*

“I found here much cordiality, a diffuse desire for closer political relations with Italy, [and] an enormous admiration for the Duce”, reported Alberto de Stefani after his visit to Berlin in February 1930. However, he mentioned one major obstacle to closer collaboration: “The future commercial relationship between Germany and Italy presents difficulties”. De Stefani’s judgment was well informed. Despite having lost his position as minister of finance when he was dismissed by Mussolini in 1925,<sup>314</sup> and having been set to the side as president of the political science faculty of the University of Rome, he was able to enter Germany’s inner political and economic circles. Within five days he had met, among many others, Internal Affairs Minister Carl Severing, President of the *Reichsbank* Hjalmar Schacht, who had an excellent reputation in Italy,<sup>315</sup> and Alfred Hugenberg, a major business figure of coal and steel, armament and media. The various discussions left De Stefani with the impression that the commercial relations could be aligned with the recent political rapprochement, which had grown out of Mussolini’s support over Germany’s rearmament.<sup>316</sup> “Vast opportunities in the future, if not now” seemed possible. But first, the obstacles still afflicting the German-Italian commercial relationship had to be removed.<sup>317</sup>

Until the outbreak of the world economic crisis, Germany and Italy possessed relatively diversified foreign trade relations, with Germany being significantly more important

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<sup>314</sup> See for his work on Italy’s public finances G. Marongiu, *La politica fiscale del fascismo* (Lungro, 2005), pp. 91-166.

<sup>315</sup> Hjalmar Schacht became one of the key figures of the reconstruction of the German-Italian economic relationship. He was one of the members of the *Gesellschaft zum Studium des Faschismus* (see chapter 1). Moreover, Schacht maintained personal relationships with many representatives of politics and business. As early as 1930, he expressed his hopes for a closer German-Italian relationship in a meeting with the Berlin-based delegate of the *Banca d’Italia*. See Milkowski (BdI Berlino) to Stringher (BdI Roma), 25 Jan 1929, Archivio Storico Banca d’Italia, Fondo Studi, cart. 158, fasc. 1. In a retrospective statement by the Italian embassy in Berlin it was “to a large extent” Schacht’s achievement that the German-Italian commercial relationship has developed “more than normal”. See AI Berlino to MAE, 6 Aug 1935, ASMAE, AC, Germania, 1935, pos. 1-5.

<sup>316</sup> Cf. Scarano, *Mussolini e la Repubblica di Weimar*, pp. 221-223.

<sup>317</sup> Alberto de Stefani, 14 Feb 1930, ACS, Fondo SPdD-CR, busta 1, Viaggi in Italia.

for Italy than vice versa. One of the most recent studies of Italy's foreign trade estimates that in 1928 imports from Germany amounted to 12.1 per cent of Italy's total imports, representing the second-largest share after imports from the US (17.6 per cent). However, the two other major European economies, France (9.0 per cent) and Britain (7.8 per cent) still possessed market shares that were much closer to the German share than in 1914, the year of the highest German share thus far in Italian imports. In that year, Germany had exported more than three times as much as France to Italy. With regard to Italian exports in 1928, the German market took the first position and accounted for 12.3 per cent of Italy's total export, followed by the US (10.7 per cent), Britain (9.4 per cent) and France (9.2 per cent).<sup>318</sup> Italy played a considerably smaller role in Germany's trade relations. In 1928, Italy accounted for only 3.3 per cent of Germany's total imports and for 4.5 per cent of its total exports, while the US economy was of similar importance for Germany and Italy.

Germany's export of RM 547 million consisted largely of finished products of various kinds (66 per cent) and, to a much lesser extent (31 per cent) raw materials (mostly coal). Italy's exports, worth a total of RM 466.3 million, were more diverse: raw materials (esp. silk and flax) accounted for 48 per cent, food and beverages (esp. Mediterranean fruits and vegetables) for 33 per cent, and finished products (esp. cars and artificial fibres) for 19 per cent.<sup>319</sup>

Germany's and Italy's relative importance in trade grew throughout the Great Depression (see Table 4), but this growth did not come without conflict. Crucially important, in 1928/29 the balance of the German-Italian trade reversed itself. In the second half of the 1920s Italy first achieved a surplus in trade with Germany. According to statistics from the Italian foreign ministries' department of commercial relations, in 1927 Italy exported goods to the tune of Lire 2,149.2 million while Germany's exports amounted to Lire 1,914.1 million.<sup>320</sup> Numbers are not innocent, however; they are fabricated from political mandates. As such, in historical inquiry – as in political discourse – they have to be handled carefully.<sup>321</sup> In the case of 1927, Italian and German calculations of the balance of trade largely conflict, but they

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<sup>318</sup> G. Federico, *Il commercio estero Italiano: 1862-1950* (Roma, 2011), pp. 126, 130.

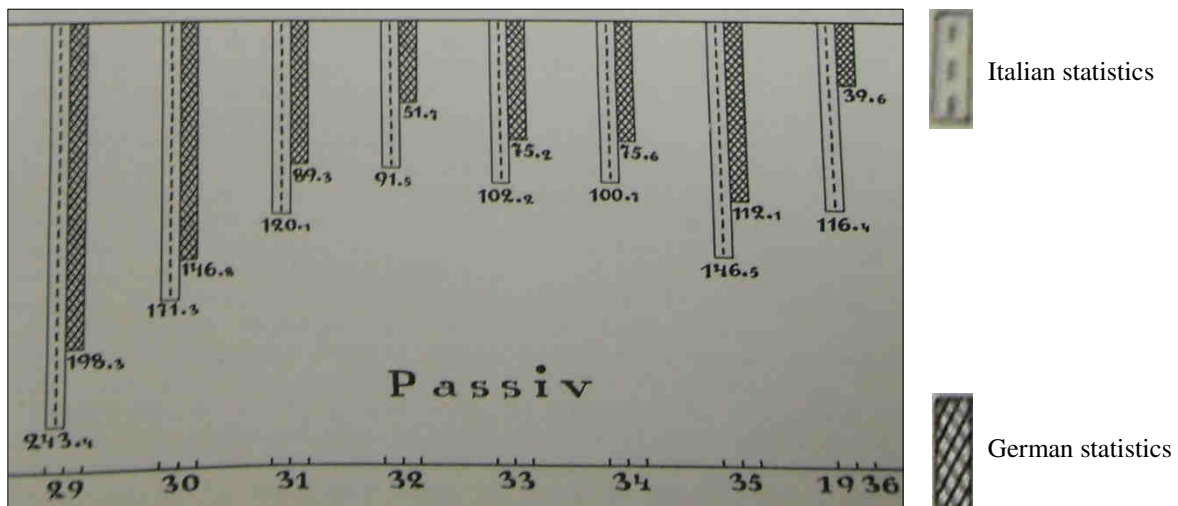
<sup>319</sup> AI Berlino, 'Gli scambi commerciali tra Italia e Germania negli anni 1925/33', April 1934, ASMAE, AC, Germania, 1934, pos. 1-4; A detailed description of Italy's foreign trade in 1929 is provided by G. Mortara, 'Die weltwirtschaftlichen Beziehungen Italiens', *Weltwirtschaftliches Archiv*, 29 (1929), pp. 258-305. See for the commercial relationship with Germany also Höpfner, *Der deutsche Außenhandel*, pp. 320-328.

<sup>320</sup> AI Berlin, 'Gli scambi commerciali tra Italia e Germania negli anni 1925/33', April 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>321</sup> Cf. A. Tooze, 'Trouble with numbers: Statistics, politics and history in the construction of Weimar's trade balance, 1918-1924', *The American Historical Review*, 113, 3 (2008), pp. 678-700.

agreed on one point: Italy's surplus. Germany's economics ministry, for instance, calculated that with the exclusion of war reparations paid to Italy, the trade balance for Germany was negative in 1924/25 and 1926/27.<sup>322</sup>

**Figure 1: Contemporary description of the differing valuations of Italy's foreign trade deficit 1929-1936 (in million gold francs)**



Source: S. Zuckermann, *Italiens Außenhandel. In graphischer Darstellung 1928-1936* (Bruxelles, Berlin, 1937)

With only a very few exceptions, it had been the other way around for the entire industrial age, and the history of Italian deficits had created sentiments that had led to nationalistic outbursts and the neglect of existing or potential advantages of trading with Germany. When, in 1928, the episode of an Italian surplus came to an end, Italian opponents of a closer commercial interpenetration with Germany could draw on a broad set of reservations about German economic dominance. At the same time, the conservative newspaper *Kölnische Zeitung*, one of Weimar Germany's premium newspapers, wrote about Italy's "*Handelsneid*" ("trade-envy") recognising the tendency that "the Italians still hold Germany as the actual rival in the trade sphere". Whereas third-market rivalries, as with the UK in the Eastern Mediterranean, or a large deficit in trade with the US, were accepted as "destiny willed by God", Germany's trade initiatives in the Eastern Mediterranean or the significantly smaller deficit in trade with Germany were deemed to be absolutely unbearable. The "fact that Germany is the best customer is not in the least reconciling".<sup>323</sup>

<sup>322</sup> RWM to MAE, 'Deutsch-italienischer Handelsvertrag', 30 Nov 1929, PA-AA, R241.111.

<sup>323</sup> 'Italienischer Handelsneid', *Kölnische Zeitung*, 27 Apr 1930.

## ***1. New Initiatives after the End of the “Battaglia per la Economia”***

The growing Italian deficit and the resulting tensions can be traced not only to policy decisions in Germany, but also to the 1929 decision of the fascist regime to mitigate its industry protectionism in favour of agriculture. The year that the world economic crisis hit hard, the fascist government alleviated the *battaglia per la economia*.<sup>324</sup> This “battle for the economy” was a state measure accompanying the introduction of the “*quota 90*” in 1926. Principally, the decision had benefited imports, crucial for a country importing most of its raw materials, and even foodstuffs such as wheat. However, the decision placed Italy’s export industry at a disadvantage as their international competitiveness declined due to higher prices. Therefore, under the banner of the *battaglia per la economia*, the fascist regime introduced several measures to support the threatened export industry. On the institutional level, the government founded the *Istituto nazionale per le esportazioni* (INE), and made several changes to customs policy.<sup>325</sup> Moreover, buy-at-home rules were introduced and supported by the state propaganda. Italian businesses and public institutions had to buy Italian products if foreign products were not cheaper by at least 10 per cent,<sup>326</sup> or were called upon to obey the “10 amendments of the true Italy”. Published as a leaflet, the amendments demanded, for instance, “not to desecrate the Italian soil or the Italian factory by the presence and the use of machines and instruments produced abroad”. The “10 amendments” became notorious in Germany and were exhibited in a collection on protectionism in Europe.<sup>327</sup>

For the German export, the *battaglia* meant significant challenges.<sup>328</sup> A 1929 German survey on the important export segment of machinery concluded that the support of “national industries” in Italy after 1926 had increasingly damaged the market share of German products. Especially machinery supply for sectors in which Italy intended to play an international role

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<sup>324</sup> The *battaglia di economia* was sometimes called the *battaglia delle esportazioni*. In general, the military denomination of certain economic measures as *battaglie* (battles) became popular in Italy under fascist rule. Moreover, the terminology also appeared in Germany in 1933 (“*Arbeitsschlacht*”), and contemporary commentators spoke of an adoption from Fascist Italy. The final part of the thesis will delve more into this in its chapters on transfers in economic relations. For the German *Arbeitsschlachten* cf. D. Humann, “*Arbeitsschlacht*”. *Arbeitsbeschaffung und Propaganda in der NS-Zeit 1933-1939* (Göttingen, 2011).

<sup>325</sup> See chapter 1.

<sup>326</sup> DB Rom to AA, 8 Feb 1930, PA-AA, R241.111.

<sup>327</sup> “*Entheilige die italienische Erde und die italienischen Fabriken nicht durch die Gegenwart und den Gebrauch von Maschinen und Instrumenten, die im Auslande hergestellt werden*”. See Deutscher Lichtbilddienst to DB Rom, 30 Aug 1930, PA-AA, R241.699.

<sup>328</sup> Federico estimates that imports from Germany fell from Lire 3,518 million in 1926 to Lire 2,623 million in 1927. In the same period, exports to Germany rose from Lire 2,188 million to Lire 2,240 million. See Federico, *Il commercio estero*, pp. 126, 134



as an exporting country, such as the textile industry, was taken out of foreign hands. The forced market change is also apparent in the machinery supply for the major land reclamation works of the fascist regime, presented by the fascist propaganda as *bonifica integrale* in Italy and abroad. For instance, Mussolini sought to fulfil an ancient desire and dry out the Pontine Marshes south-east of Rome. For this enormous task, huge numbers of pumps were needed, but instead of creating business opportunities for German companies, which used to hold significant market shares in this segment, the fascist government subsidised the use of Italian products with up to 40 per cent of the costs.<sup>329</sup>

Private banks participated in building up protectionist walls around the “new land” created by the *bonifica integrale*. In 1930, *Vereinigte Stahlwerke*, Europe’s biggest steel producer, complained to the German consulate in Palermo that it was cut off from the tube-supply of the land ameliorations carried out by the company *Fratelli Anoroso*. The company’s financier, *Banco di Sicilia*, deployed by the government to distribute the state subsidies for Sicily, had threatened *Fratelli Anoroso* that it would cut its financing if it continued to use the cheaper products produced by *Vereinigte Stahlwerke*.<sup>330</sup>

In other export segments, all that was left for German companies outdone by Italian competitors was to form joint ventures with domestic companies in order to circumvent the protectionist barriers. The Berlin-based delegate of the *Banca d’Italia* Milkowski, while speaking of his close relationship with Schacht, insinuated that, “he would be happy to use his [Schacht’s] influence to assure for our country German financial and technical assistance”.<sup>331</sup> While Italian companies appreciated joint ventures, the German industry seemed more wary of them. A survey by the German-Italian chamber of commerce conducted among German companies with business relations in Italy listed various complaints. In particular, group headquarters in Germany faced difficulties in employing German citizens in the factories of their Italian branch, and even in sending engineers to set up the production.<sup>332</sup>

The impact of the *battaglia* on Germany’s commercial interest was grave enough for Ernst Trendelenburg, state secretary at the RWM, to condemn it in a 1929 assessment. Especially the increase of tariffs – 54 increases out of 131 were carried out in tariff lines where Germany was the main exporter – had atrophied Italian imports from Germany, and

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<sup>329</sup> GK Mailand to AA, ‘Absatz deutscher Maschinen in Italien’, 1 Aug 1929, PA-AA, R241.400.

<sup>330</sup> GK Palermo to DB Rom, 13 Jun 1930, PA-AA, R240.697.

<sup>331</sup> Milkowski (BdI Berlino) to Stringher (BdI), 20 Nov 1928, Archivio Banca d’Italia, Fondo Studi, cart. 158, fasc. 1.

<sup>332</sup> Deutsch-Italienische Handelskammer in Mailand, ‘Die Auswirkung des Deutsch-Italienischen Handelsvertrags’, 24 Jul 1930, PA-AA, R241.111.

subsequently led to the German deficit. From Trendelenburg's point of view, the tariff increases contradicted the regulations of the German-Italian commercial treaty of 1925.<sup>333</sup>

Despite some early success, as shown by the positive trade balance for Italy, after 1929 the *battaglia* started to face limitations, and restrictions on imports from Germany as well as the buy-at-home rules lost favour within the Italian population. Italian security authorities, for instance, tried to gain information about Italian buyers of German goods by interrogating Italian drivers of German freight vehicles at the border about their destination and the Italian recipients of the outlawed goods. Given this practice, Germany's ambassador to Rome, Konstantin von Neurath (1921-1930), advised German exporters to employ only German freight forwarding companies and German drivers. It was supposed that they could hold their tongues regarding who was buying German goods.<sup>334</sup>

Moreover, Trendelenburg recognised early in 1930 "statements of important [unspecified] personalities" in Italy speaking in favour of cutbacks in the protectionist framework of the *battaglia*. A complete removal of the *battaglia* was not to come, as major interest groups would fight for its maintenance, but Trendelenburg reckoned that significant customs facilitations could be achieved. His confidence was based on his observation that the Italian government had recently shifted its attention from industry protectionism to agricultural investment.<sup>335</sup> Institutionally, this shift was represented in the transformation of the ministry of national economics into the ministry of agriculture.<sup>336</sup> Moreover, the German consulates in Italy (Milan, Genoa, Turin, Venice, Trieste, Naples and Palermo) had reported recently that they were handling considerably fewer complaints by companies over discriminative issues allegedly caused by the *battaglia*. According to the reports, "foreign products" were again gaining acceptance not only in private businesses like FIAT or the Terni steel plants, but also in state-owned enterprises like the shipyard *Cantieri di Castellammare*. However, the German embassy in Rome warned against mentioning the signs of dissolution in the framework of the *battaglia* on the level of official diplomacy in order not to give away bargaining power for the looming major dispute of 1930: the end – or the extension – of the expiring German-Italian commercial treaty.<sup>337</sup>

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<sup>333</sup> RWM to AA, RFM, RLM, 'Deutsch-Italienische Handelsvertrag', 30 Nov 1929, PA-AA, R241.111.

<sup>334</sup> See Torunsky, *Entente der Revisionisten*, p. 152.

<sup>335</sup> RWM to AA, RFM, RLM, 'Deutsch-Italienische Handelsvertrag', 30 Nov 1929, PA-AA, R241.111.

<sup>336</sup> C.f. N. de Ianni, *Il ministro soldato: Vita di Guido Jung* (Soveria Mannelli, 2009), p. 251.

<sup>337</sup> DB Rom to AA, 8 Feb 1930, PA-AA, R241.111.

## ***2. Attempt No 1: The Spiral of Protectionism***

The *Frankfurter Zeitung*, a flagship newspaper of German liberalism, predicted the importance of the negotiations by stating that, “big events cast shadows long before” they occur.<sup>338</sup> The tone of the German-Italian public debate over the ideal basis of the German-Italian trade was set in April 1930 by Alberto De Stefani in an article for *Corriere della Sera*, Italy’s best-selling newspaper. He made his arguments public only a short time after he had returned from a visit to Berlin in February 1930. De Stefani argued that the terms of trade had recently changed dramatically in favour of Germany. To support his claim, he invoked the balance of trade over the past three years, demonstrating that Italian exports had decreased since 1928, whereas German exports had increased. De Stefani averred that in the long run, this kind of imbalance would be unsustainable. Interestingly, his suggestions on how to bring the economic crisis to an end did not, despite the growing global popularity of protectionism, include import restrictions, such as those put in place by the *battaglia*. “May the German goods come”, argued De Stefani, but he also demanded changes in the German economic and tariff policy to allow the German market to open up for Italian products. He expected that the comparative advantage in German-Italian trade could be exploited only with the implementation of these measures.<sup>339</sup>

The article was widely read in German government and business circles, because it was thought to represent the opinion of the fascist government, and therefore to provide a first impression of the arguments that would be heard at the upcoming treaty negotiations. Almost invariably, the arguments were rejected. The German point of view is exemplified, for instance, in a response by the *Frankfurter Zeitung*. First of all, the entire reasoning, claiming that the balance of trade was developing in favour of Germany, was judged to be flawed. By taking 1927 – indeed a very favourable year for Italy – as reference, De Stefani was accused of having described an overly negative trend for the period till 1929. Drawing on the history of the Italian deficit, the *Frankfurter* contended that by looking at a longer time period the development was not as negative as De Stefani had depicted, but rather a normalisation. Moreover, De Stefani was accused of building up his assessment solely on the balance of trade, thereby concealing other important factors contributing to the balance of payments. Two factors in particular were noted: reparations and the thousands of German tourists in Italy.

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<sup>338</sup> ‘Deutsch-italienische Außenhandel’, *Frankfurter Zeitung*, 28 Apr 1930.

<sup>339</sup> A. De Stefani, ‘Rapporti commerciali italo-tedeschi’, *Corriere della Sera*, 24 Apr 1930.

With regard to the deliveries of coal and other goods as reparations, payments of annually *Goldmark* 26.5 million and the money spent by German tourists visiting Italy, the article asserted that a payment flow from Germany into Italy had been created that was not paralleled by a similar flow into Germany, and which more than compensated for the Italian deficit in trade.<sup>340</sup>

Disagreement existed not only about the correct calculation of surplus and deficit, but also over the means to compensate for these imbalances. The *Berliner Börsenzeitung*, dedicated to the national conservative readership and focused on the stock exchange, implicitly responded to De Stefani's demand for a German market better suited for Italian products. In the ongoing economic crisis, a decreasing demand for Italian products would only be natural. Germany imported mainly luxury goods like Mediterranean fruits and vegetables, cars and artificial fibres, which people facing diminished purchasing power simply could no longer afford. Nevertheless, the newspaper expressed its confidence that most of the accusations made by De Stefani could be classified as a mere strategic measure to pave the way for beneficial treaty negotiations, and that in the end mutual interest would prevail.<sup>341</sup>

While the German press completely rejected De Stefani's arguments, German government officials in charge of the treaty negotiations perceived them differently. In April 1930, Hans Posse, director of the foreign trade department at the RWM and one of the leading figures of the Germany's economic relations in the 1930s, called for a meeting with officials from the AA, RWM and RFM. In fact, every German expert was well aware that in the recent past, Germany had had a period of positive economic development. It was attributed not only to the Italians' failure to maintain their protectionist *battaglia* framework, but also to Germany's advances in applying customs policy to the effect of decreasing imports. One sector had been shielded in particular: German agriculture.<sup>342</sup> Of course, rising agricultural protectionism in Germany was alarming news to Italian export interests, and the Banca d'Italia representation in Berlin reported every change in the protectionist framework.<sup>343</sup> The degree to which agriculture was a bone of contention in the upcoming treaty negotiations with

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<sup>340</sup> 'Deutsch-italienische Außenhandel', *Frankfurter Zeitung*, 28 Apr 1930.

<sup>341</sup> 'Um die Verlängerung des deutsch-italienischen Handelsvertrages. Was die Statistik wirklich lehrt', *Berliner Börsenzeitung*, 25 May 1930.

<sup>342</sup> For a concise overview on Germany's and Europe's agricultural protectionism see K. Patel, *Europäisierung wider Willen: Die Bundesrepublik Deutschland in der Agrarintegration der EWG 1955-1973* (München, 2009), esp. pp. 37-38..

<sup>343</sup> BdI Berlino, 'Gli aiuti statali all'agricoltura in Germania', 15 Apr 1930, Archivio Storico Banca d'Italia, Fondo Studi, cart. 28.

Italy is shown by the fact that the inter-ministerial reunion did not want to formulate guidelines for the negotiations before the ministry of agriculture (*Reichsministerium für Ernährung und Landwirtschaft*, RLM) was heard.<sup>344</sup>

A major change for Germany's stance in the trade negotiations with Italy was supported by an inter-ministerial dispute as well as a new initiative at the international stage. Negotiations at the League of Nations over co-ordinated actions against the economic crisis had recently gone in the direction of a global tariff truce (*Zollfrieden*).<sup>345</sup> According to this international agreement, which the German government intended to implement, states were obliged to refrain from cancelling commercial treaties. This accord was intended to prevent placing further pressure on global trade. This meant a significant loss of bargaining power for Germany in the planned German-Italian negotiations, as the threat of cancellation had been a powerful advantage for the German government due to its importance as a trading partner (see Table 4). Under the new circumstances, the AA, the RWM and the RFM all believed that it would be rather unrealistic to insist on all the customs amendments demanded by the RLM in search of agricultural protection.<sup>346</sup> This constitutes evidence that the RLM's position of pushing for a cancellation or at least significant changes in the German-Italian commercial treaty did not find acceptance in the cabinet.<sup>347</sup>

German industry and commerce, unlike agriculture, were largely in favour of the established commercial relations. An evaluation of the German-Italian chamber of commerce among companies doing business in Italy showed that in 1930 more than 90 per cent of the companies opted for the renewal of the commercial treaty.<sup>348</sup> Nevertheless, also in this sector with its seemingly lower level of open disharmony, collaboration still seemed far off from the plans of a German-Italian rapprochement elaborated on the political level. In the summer of 1930, while the public was still engaged in the dispute over the commercial treaty, a delegation of 80 Italian business leaders travelled to Germany in order to visit various companies and industrial facilities. In the "Elektropolis" Berlin, for instance, the delegation planned to visit the facilities of the electro-technical companies Siemens, AEG and Osram.

While the German embassy in Rome highlighted the political dimension of the visit, and insisted that a favourable impression on the delegation would be in Germany's

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<sup>344</sup> Von Bülow (AA), 30 Apr 1930, PA-AA, R105.641.

<sup>345</sup> For the tariff truce see also chapter 5.

<sup>346</sup> Karl Ritter (AA), 20 Aug 1930, PA-AA, R105.641.

<sup>347</sup> AA (Curtius) to Reichskanzlei, 9 Jul 1930, ADAP, series B, vol. XV, no. 128.

<sup>348</sup> Deutsch-Italienische Handelskammer in Mailand, 'Die Auswirkung des Deutsch-Italienischen Handelsvertrags', 24 Jul 1930, PA-AA, R241.111.

“substantial interest”, the goals of the Italian delegation were more related to business practise.<sup>349</sup> Reporting from Germany, *Corriere Della Sera* gazed at the recent achievements in *Rationalisierung* – the scientific organisation of industrial production. While the concept originated in the US, it was in the German industry where it found “boundless distribution”, according to the *Corriere*.<sup>350</sup> The ANFDI (*Associazione Nazionale Fascista dei Dirigenti di Aziende Industriali*), an Italian business leaders’ organisation, formulated its goals for the visit as “technical co-operation and to facilitate the transfer of technical knowledge”.<sup>351</sup> However, it seems that such transfers were not at all appreciated by representatives of the German industry. The RDI (*Reichsverband der deutschen Industrie*), the major interest group of German industry, had been involved in the planning of the visit and heavily opposed the intended visits of German factories as “way too far-reaching”.<sup>352</sup>

Further explanation of the industry’s defensive attitude toward too-close a technical collaboration is provided by a complaint of the company *B. Braun Melsungen*. The medical and pharmaceutical company (today one of the biggest hospital suppliers worldwide) used to consider interwar Italy a very important market; in fact, it opened its first foreign subsidiary there in 1925.<sup>353</sup> In particular its medical yarns were hugely successful until the beginning of 1931, when a previously unknown Italian product caused the company to seek support from Germany’s foreign ministry. The Italian *Istituto Chimico Sanitario*, so the reproach ran, had obtained a patent from Germany for the production of a yarn that counterfeited the *Braun*-yarn. The Italian product had replaced the Braun-product quite successfully because what it lacked in quality it made up with protectionist support. In strict secrecy, the government had exerted pressure on the hospitals to use Italian products and to report physicians who deviated from the protectionist policy.<sup>354</sup>

That the hereby-exemplified link between opposition against transfers of technical knowledge and industrial protectionism was not an isolated case is demonstrated by an attempt of the Italian consulates in Germany to gain information from various German companies with a questionnaire. One company, *Ihagee*, a specialist in photo technology based

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<sup>349</sup> DB Rom to AA, 26 Jul 1930, PA-AA, R240.661.

<sup>350</sup> ‘In Germania coi dirigenti Italiani. La razionalizzazione e I suoi guai’, *Corriere Della Sera*, 28 Aug 1930.

<sup>351</sup> Associazione Nazionale Fascista dei Dirigenti di Aziende Industriali to DB Rom, 2 Aug 1930, PA-AA, R240.661.

<sup>352</sup> RDI (Lohmiller) to GK Mailand, 17 Jul 1930, PA-AA, R240.661.

<sup>353</sup> For a long-term study of Italy’s attractiveness for foreign direct investment see A. Colli, ‘Multinationals and Economic Development in Italy during the Twentieth Century’, *Business History Review*, 88, 2 (2014), pp. 303-327.

<sup>354</sup> B. Braun Melsungen to AA, 6 Jan 1931, PA-AA, R240.697.

in Dresden with a subsidiary in Turin, suspected industrial espionage behind the questionnaire. The German consulate in Turin found the accusation feasible, and it speculated that the Italian government was collecting material for a law that would subject German subsidiaries in Italy to a special tax. Without probing the accusations, the German consulate recommended in any case that recipients of the questionnaire refrain from filling it in.<sup>355</sup>

Throughout 1931, complaints about protectionism increased as the impact of the world economic crisis unfolded. *Banca d'Italia's* representation in Berlin reported for instance that the *Reichslandbund*, Germany's major agricultural pressure group, presented the German government with an ultimatum. Although several German ministries warned of retaliation in case Germany raised its agricultural tariffs, "the Junker [landowner] remained again victors" asserting protectionist support for German agricultural production.<sup>356</sup>

South of the Alps, the German consulate in Milan observed that under the leadership of Italy's ex-economics minister, Giuseppe Belluzzo, the *Comitato per il Prodotto Italiano* (Committee for the Italian Product) was founded. This committee launched a campaign under the banner "a consumer of foreign products is not Italian", apparently not without success. The German Consulate in Genoa considered Fascist Italy's striving to become economically "more and more independent from abroad" successful with regard to iron and steel production. The organisation of private businesses in syndicates – antecedents of the long projected *corporazioni*<sup>357</sup> – had a particularly negative impact on the German iron and steel export, as the syndicates decided over the purchase of producer goods and therefore created an exclusive market for the Italian output.<sup>358</sup> However, protectionism not only advanced in the sector of iron and steel, crucially important to a regime devoted to power politics; it also reached into more specialised sectors such as machine tools, as the German consulate in Milan reported. German exporters in this sector had also to face high customs barriers and government pressure on potential customers to buy Italian products. Furthermore, every machine able to earn a reputation on the Italian market in spite of those obstacles would be "counterfeited immediately".<sup>359</sup>

Certainly, these accusations exaggerated the dimension of counterfeiting, and to a certain extent rather represent alarming calls for government action as can be understood from

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<sup>355</sup> DK Turin to AA, 16 Nov 1931, PA-AA, R240.697.

<sup>356</sup> BdI Berlino to BdI, 23 May 1931, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 225.

<sup>357</sup> See chapter 1, which deals with the evolving steering institutions of foreign trade.

<sup>358</sup> GK Genua to AA, 12 May 1931, PA-AA, R241.400.

<sup>359</sup> GK Mailand to AA, 11 May 1931, PA-AA, R241.400.

the above-mentioned report on protectionism in iron and steel. Here, the global “decline of demand” was held responsible for the increase of foreign competition also on the Italian market. This had led to a price slump in Italy, and, “rendered the otherwise effective protection of the national production by customs and other means illusory”. Therefore, it can be assumed that foreign products constantly managed to breach the defensive fence comprised of protectionism and counterfeiting due to lower prices. The successful attempts to compete on the Italian market had been described by the Italian side as “dumping”, and subsequently triggered further intensification of protectionism.<sup>360</sup> The thereby evolving spiral of protectionism had a firm lock on the German-Italian commercial relationship, which seemed very difficult to escape from.

### ***3. Attempt No 2: Political Rhetoric without Action***

An attempt to step back from the spiral of protectionism was made at the August 1931 visit of Reich Chancellor Brüning to Rome. It was the first official visit of a German head of government to Italy after World War I. Brüning’s plan of a German-Austrian customs union had caused serious disturbance on the diplomatic level, and there was a dire need to appease the important partner Italy, who was diametrically opposed to the union. Suvich feared in his memoirs that, if Austria was reduced to a state of dependence either to Germany or the Little Entente, it would be the end of Italian aspirations for Southeastern Europe.<sup>361</sup> Besides the customs union,<sup>362</sup> the main economic issue, according to Posse, who organised the preparations for the visit, was the commercial treaty and the question of its extension.<sup>363</sup>

The newspaper *Hartungsche Zeitung* considered the meeting half sceptically, half optimistically:

One cannot expect immediate results from the visit of the chancellor. First of all it is about setting the scene for a rapprochement. And this psychological act is being taken at a moment that we are halfway cut off from the world due to foreign exchange control, of highest symbolic importance.<sup>364</sup>

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<sup>360</sup> GK Genua to AA, 12 May 1931, PA-AA, R241.400.

<sup>361</sup> See F. Suvich and G. Bianchi, *Memorie: 1932-1936* (Milano, 1984), p. 81.

<sup>362</sup> The implications of the German-Austrian customs union for the German-Italian economic relationship will be analysed in Chapter 6.

<sup>363</sup> ‘Niederschrift über die Chefbesprechung’, 5 Aug 1931, Barch, R43-I/80.

<sup>364</sup> ‘Deutsch-italienische Wirtschaftsbeziehungen’, *Königsberger Hartungschen Zeitung*, 10 Aug 1931.



The newspaper's optimism was based on the conviction that Germany and Italy to a large extent shared foreign economic interests. Both economies depended on foreign markets to issue bonds, and both possessed a relatively high rate of emigration. The deterioration of their overseas commercial relations, in particular with the US, had created opportunities to improve their mutual economic relationship.

Yet, the preparations for the visit on both sides demonstrated a lack of awareness regarding common economic interests. Mussolini's prime informant on the development of the NSDAP between 1931 and 1933, and head of the Italian chamber of commerce in Berlin, Giuseppe Renzetti, disparaged, without mincing words, the current German foreign economic policy. "Conducted without a clear vision of the events", Renzetti considered the policy, like its formulators, "undecided, disorganised, reckless".<sup>365</sup> Although he acknowledged the grave currency problems Germany had been facing since the onset of the economic crisis, Renzetti condemned the government for pinning its hopes on import restrictions, which had seriously damaged Italy's exports.<sup>366</sup> However, Renzetti also saw a basis on which mutual understanding could grow. He reported to Mussolini that Italy's position with regard to the international regulation of reparations – "*un colpo da maestro*" – had left a profound impression in Germany, which could be leveraged by the Duce.<sup>367</sup>

Likewise in Germany, an inter-ministerial meeting preparing for the visit to Italy recognised Mussolini's good will in the negotiations over reparations and Italy's loss of RM 42 million due to the Hoover Plan for a moratorium on payments of war debts. German Foreign Minister Julius Curtius reminded the meeting that the deal, by which Germany paid reparations to Italy partly with coal deliveries, had for years worked well. However, the inter-ministerial meeting agreed that at the upcoming negotiations Italy would try to improve its conditions for coal deliveries after the end of Germany's reparations. This attempt had to be halted. Foreign Minister Curtius assumed that Italy, although it could import much cheaper British seaborne coal, would pay comparatively high prices for German coal in order to secure a continental supply.<sup>368</sup>

The distribution of coal between the two countries was more than a singled-out case to be addressed at the Rome meeting. For Posse, head of the trade department at the economics

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<sup>365</sup> Renzetti, 6 Aug 1931, BArch, NL 1235/10.

<sup>366</sup> Renzetti, 4 Aug 1931, BArch, NL 1235/10.

<sup>367</sup> Renzetti, 1 Jul 1931, BArch, NL 1235/10. German-Italian co-ordination at the international stage over issues such as reparations is set out in detail in Part II.

<sup>368</sup> 'Niederschrift über die Chefbesprechung', 5 Aug 1931, BArch, R43-I/80.

ministry (RWM), the distribution was the fulcrum upon which Germany could insist on its surplus, and why at the same Italy was wrong to demand even a more balanced trade. In Posse's view, Italian government and business circles claiming for an Italian surplus misjudged that the reasons for Italian deficits are the "natural scarcity of important raw materials and natural resources". Interestingly, Posse based his claim on the scarcity of commodities such as cotton or mineral oil even though these commodities were equally scarce in Germany (with the exception of coal).<sup>369</sup> Therefore, Germany's mineral wealth of coal and Italy's need for energy imports to pursue "power politics" bound the two countries together, and, at the same time, tore them apart. Posse, the mastermind behind Germany's foreign economic policy, used the distribution of coal to legitimise a trade policy and the status as an industrial surplus economy for Germany, while he denied the same much-desired status to Italy.<sup>370</sup>

Accordingly, the meeting in Rome ended in disagreement rather than the hoped-for closer economic collaboration. In sharp contrast to the opportunities outlined in the previously mentioned article in the *Hartungsche Zeitung*, Italian Foreign Minister Dino Grandi spoke of serious difficulties for the coal trade, whose conditions could no longer be guaranteed. Moreover, Mussolini and Brüning in a personal discussion agreed that the shared decline in trade with the US was not a lucrative opportunity for the bilateral German-Italian commercial relationship. Both heads of government declared that it would be "the essential task in the near future [...] to do everything to avoid the US losing interest in European affairs".<sup>371</sup> Eventually, in a talk with his German counterpart Curtius, Grandi conceded that Italy would accept, for better or worse, German import restrictions on Italian cars and other industrial products, provided that Germany continued to import Italian agricultural products.<sup>372</sup>

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<sup>369</sup> Posse to Reichskanzlei (Planck), 5 Aug 1931, BArch, R43-I/81.

<sup>370</sup> At one of the subcommittees at the World Economic Conference in 1933, Posse revealed his concept of the international economy. He rejected Turkey's attempts at industrialisation because "the ever ongoing establishment of new industries is globally not useful". Instead he argued in favour of a "reasonable division of labour" between industrial countries. Posse's statement caused an unexpected outcry by the Turkish press, joined by statements of condemnation from the Soviet Union, which the AA had to calm down. See DB London to AA, 12 Jul 1933, PA-AA, R106.034.

<sup>371</sup> AA, 'Aufzeichnung über die Gespräche bei dem Frühstück auf der deutschen Botschaft am Sonnabend', 8 Aug 1931, PA-AA, R105.641.

<sup>372</sup> Italian agricultural interest was in 1931/32 strongly pushing for better representation. It managed to change the stakes in the *commissione consultativa per gli scambi con l'estero*, a foreign economic policy body bringing together representatives of the different economic sectors for the benefit of agriculture. See MAF, 30 Nov 1931, ACS, Fondo PCM, busta 1611.

Although initially reluctant, Curtius did eventually request that the RFM in Berlin loosen the tight ministerial control on foreign exchange (*Devisen*).<sup>373</sup>

However, despite the foreign exchange made available to buy Italian perishables harvested over the past summer, and the attempt to further harmonise trade with a return visit to Berlin, no breakthrough was achieved. On the positive side, Karl Ritter, head of the commercial department of the AA (*Referat für Wirtschaft*), assured the Italian delegation consisting of Guido Jung, head of INE,<sup>374</sup> Eugenio Anzilotti, director general at the MCorp,<sup>375</sup> and Adelchi Riccardi, commercial attaché at the Italian embassy in Berlin, with a positive assessment of the foreign exchange situation. He explained that the pressure on the Reichsmark had recently lessened, thereby creating new financial leeway for purchases from Italy. In return, the Italians offered to support Germany so as to prevent capital flight. Both parties, however, complained that import restrictions would hinder their trade still. Ritter, for instance, complained about Italy's high tariff on radios, and suggested an adjustment which would keep tariff barriers against the strong US competitors, while sparing German exporters. The Italian delegation, in turn, complained that Germany had a veterinary agreement with Austria, which significantly facilitated cattle imports from Austria, while there was no such agreement in place for Italy.<sup>376</sup>

However, these were only minor technical issues of the commercial relationship; more fundamental disagreement persisted over the question of surplus and deficit in trade. Ritter insisted that the payment flow created by remittances of Italian foreign workers in Germany,<sup>377</sup> and especially the expenditure of German tourists in Italy would compensate for the Italian deficit in trade. The Italian ambassador disagreed: in his view the impact of the economic crisis meant that the payment flow into Italy no longer had a compensating

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<sup>373</sup> 'Aufzeichnung Curtius über die Besprechung mit Grandi', 7 Aug 1931, BArch, R43-I/80.

<sup>374</sup> Guido Jung was finance minister between 1932 and 1935. Born in Palermo, he inherited a company that specialised in the export of dried and citrus fruits. In office, he was accused several times of conflicts of interest. Cf. N. de Ianni, *Il ministro soldato: Vita di Guido Jung* (Soveria Mannelli, 2009).

<sup>375</sup> Anzilotti was an expert on Italian foreign economic policy whose work was also published in German. See E. Anzilotti, 'Die Handels- und Zollpolitik Italiens in der Nachkriegszeit', *Schriften des Vereins für Sozialpolitik*, 171, 2 (1925), pp. 227-306.

<sup>376</sup> AA, 'Aufzeichnung über die Besprechung am 20. und 21. August 1931 im Auswärtigen Amt mit italienischen Vertretern Jung, Anzilotti und Riccardi', 22 Aug 1931, PA-AA, R105.641.

<sup>377</sup> Although Italian workers in Germany and their remittances had an impact already before World War I, and especially after 1938, during the time of the Weimar Republic these were almost negligible as labour emigration temporarily ceased. See Del Fabbro, 'Von den Anfängen', pp. 84-94. Cf. R. Esteves and D. Khoudour-Casteras, 'A Fantastic Rain of Gold. European Migrants' Remittances and Balance of Payments Adjustment During the Gold Standard Period', *Journal of Economic History*, 69, 4 (2009), pp. 951-985.

effect.<sup>378</sup> At a meeting in Rome early in 1932, Bonifacio Ciancarelli<sup>379</sup> and Adelchi Riccardi said to a German delegation that they had the impression “that Germany still does not understand what is important to Italy. The entire basis of Italy’s foreign economic policy is to prevent increasing deficits in the balance of trade”. The German delegation’s heated reply “that Italy just does not understand [Germany’s] position”, which is “unconditionally obliged to have a positive balance” to meet its international liabilities, that is, its reparations obligations.<sup>380</sup> Yet, it seems that the German argument, repeated throughout the 1920s, struggled to convince those in Italy. Shortly before the meeting, the *polizia politica*, Fascist Italy’s secret police and later the template for Nazi Germany’s Gestapo, gathered information in the US that, “Germany is not poor, and its individual wealth is certainly higher than Italy’s and the Italians. [...] It can pay, but does not want to”.<sup>381</sup> Consequently, this evaluation undermined the legitimacy of the German surplus. To find a way out of this conflict of objectives, a new institutional basis had to be found.

#### ***4. Attempt No 3: “Foreign Exchange War”***

On 5 March 1932, after “months of difficult discussions”,<sup>382</sup> the governments in Italy and Germany finally amended the commercial treaty with an additional protocol. Expectations ran high. The national conservative newspaper *Der Tag* wrote that the protocol “reflects the idea that opportunities of collaboration between both countries exist”.<sup>383</sup> Again, the German consulate in Milan praised the compatibility of Germany’s and Italy’s economic interest in the world economic crisis. Both countries had to rigorously protect their currencies, and both were ravaged by severe capital poverty. Furthermore, both pursued an economic policy in-between nationalization and economic individualism. Last, and not quite true, as demonstrated throughout the thesis, the consulate saw both countries as supporters of the current world trade order as they adhered to the most-favoured-nation obligation and refrained from autarchy.<sup>384</sup>

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<sup>378</sup> AA, 6 Feb 1932, PA-AA, R241.113.

<sup>379</sup> Bonifacio Ciancarelli was head of department *politica economica* at the MAE.

<sup>380</sup> Deutsche Delegation to AA, 17 Feb 1932, PA-AA, R241.113.

<sup>381</sup> Polizia Politica Genova, 17 Jan 1932, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 43.

<sup>382</sup> Economic Relations Section, 9 May 1932, LON, R2920.

<sup>383</sup> ‘Wirtschaftliche Zusammenarbeit zwischen Deutschland und Italien’, *Der Tag*, 29 Mar 1932.

<sup>384</sup> GK Mailand, 18 Apr 1932, PA-AA, R241.114.

In terms of actual results, the German negotiators expressed their confidence that they had reached a relatively beneficial agreement for German agriculture. The tariff binding for certain agricultural products was relieved, thus providing protectionist support for the German producers facing international and especially Italian competition. The confidence of the German government officials was, of course, not shared by the Italian side. Foreign Minister Grandi, in a discussion with the German Ambassador Schubert (1930-1932), disparaged the protocol and the government member responsible, Minister of Corporations Giuseppe Bottai. The content of the protocol was for Grandi “very limited and charged with plenty of reservations, suitable to create mistrust”.<sup>385</sup>

The only aspect that escaped Grandi’s condemnation was the intended creation of a mixed commission of German and Italian producers. Apparently, this suggestion came from the Italian side, but was immediately welcomed by German negotiators. In autumn 1931, Germany and France had established a similar commission, which for Germany also served the task of safeguarding the access to one of his most lucrative export markets.<sup>386</sup> The MAE, impressed with the results of the first meetings of the German-French commission,<sup>387</sup> considered this form of economic co-ordination as much more promising than the present negotiation of commercial contacts by government officials.<sup>388</sup> However, Grandi warned that even this last positive aspect of the protocol would lead to trouble if “ringing” declarations were not followed by quick implementations. Under the impact of the economic and social crises, he argued, governments must take care not to throw dust in the eyes of the people.<sup>389</sup> Ambassador Schubert was not amused by Grandi’s assessment, although he shared his wish for the immediate creation of the mixed commission. Schubert reckoned that, henceforth, economic collaboration could only function on an institutional basis, which broadly included private business. The present basis of commercial contracts between governments (depreciatively labelled “*Wald- und Wiesenverträge*”) was to him already “long outdated”.<sup>390</sup>

Surprisingly, private business in Germany was by no means happy with the protocol. The RDI told the cabinet that the declarations published after its conclusion were nothing but an “appeasement of industry to cover up the negative results”. Moreover, the government was

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<sup>385</sup> DB Rom to AA, 5 Mar 1932, PA-AA, R241.113.

<sup>386</sup> AI Berlino to MAE, 2 Feb 1932, ASMAE, AC, Italia, 1934, pos. 10/13-10/50. The launch and the development of the commission was closely surveyed by the MAE.

<sup>387</sup> AI Berlino to MCorp, 28 Jan 1932, ASMAE, AC, Italia, 1934, pos. 10/13-10/50.

<sup>388</sup> MAE to MCorp, 20 Feb 1932, ASMAE, AC, Italia, 1934, pos. 10/13-10/50.

<sup>389</sup> DB Rom to AA, 5 Mar 1932, PA-AA, R241.113.

<sup>390</sup> DB Rom to AA, 9 Mar 1932, PA-AA, R241.113.

requested to cancel the establishment of the mixed commission as it would drain money and time from the involved companies for “absolutely unpromising negotiations”.<sup>391</sup> The *Siemens* branch in Milan accused the German government and especially the embassy in Rome of responsibility for the awkward results of the negotiations. All the customs barriers that weighed so heavily on Germany’s exports to Italy had been maintained. The Milan branch requested the *Siemens* headquarters in Berlin pressured the government to refrain from ratifying the protocol.<sup>392</sup>

The government, meanwhile, rejected the criticism articulated by private business. Ambassador Schubert refused to speak of a negative result for German economic interests. The protocol had achieved all that he believed feasible under the given circumstances. Indirectly, however, Schubert admitted that the agreement had not been concluded bearing only economic interest in mind: “Political reasons have been expedient to strive for an agreement and to avoid a breakdown in negotiations”. Nevertheless, he held that in the long run the protocol would have “a favourable effect on the economic sphere”.<sup>393</sup> The problem was that this time confidence in the future was replaced by frustration over the new institutional basis.

In Italy, especially export-oriented agriculture soon proved to be very displeased with the regulations of the protocol. The protocol had allowed Germany to increase restrictions on agricultural imports. In May 1932, Giuseppe Tassinari, leader of the fascist syndicate of agriculture,<sup>394</sup> publicly declared that it “cannot be accepted that a country, exporting to Italy way more than it imports, inhibits almost existential Italian export”. The numbers Tassinari presented spoke volumes. In April 1932, Germany had imported 73 per cent less agricultural goods than in 1930. Moreover, Tassinari highlighted the importance of those imports by stating that in 1931 agricultural goods had still made up 58 per cent of Germany’s global imports. Now, on the verge of the Italian harvest, a continuing blockage would be unbearable to Italian economic interest. In general, Tassinari took the commercial difficulties with Germany as an argument against the production of agricultural goods for export, urging for the Italian soil to be used for grain and livestock instead, that is, to follow the path of autarchy

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<sup>391</sup> RDI to Fessler (Reichskanzlei), 22 Mar 1932, BArch, R43 I/1097.

<sup>392</sup> Siemens Mailand to Siemens Zentrale Berlin, 6 Apr 1932, PA-AA, R241.113.

<sup>393</sup> DB Rom to AA, 10 May 1932, PA-AA, R241.114.

<sup>394</sup> Tassinari’s statement was cross-published in several newspapers such as *Il Popolo d’Italia* and *Il Popolo di Roma*, which at the time was the mouthpiece of agriculture lobby groups.

preset by the *battaglia del grano* of 1925. But for the moment, he demanded from the Italian government an “action of defence, and an immediate emergency reaction”.<sup>395</sup>

The reaction came swiftly. Within a week, the Italian government set up a plan to protect its “vital” exports. The basic policy measure was a “foreign exchange decree”, which would have allowed the Italian government to restrict imports from Germany by cutting off Italian importers of German goods from the foreign exchange supply. In an act of revenge, the measure basically imitated the German system of foreign exchange controls held responsible for the entire conflict and went even further. The measure unilaterally attacked imports from Germany, while Germany’s foreign exchange controls did not discriminate among countries. Ambassador Schubert warned that such “militant action would cause counter measures and that hereby [Germany and Italy] would get into a trade war with worse consequences for Italy than for Germany”.<sup>396</sup>

However, while threatening the aforementioned act of revenge, the Italian side at the same time offered an institutional arrangement to solve the conflict: a payments agreement.<sup>397</sup> This idea, strongly supported by the agricultural lobby group *Federazione Nazionale Fascista del Commercio Ortofrutticolo e Agrumario* (FNFCOA), foresaw an agreement between German and Italian banks to substitute direct payments between exporters and importers of both countries with a clearing of export revenues between banks of each country. This would resolve the aggravating problem that importers of Italian goods in Germany obtained ever lesser amounts of foreign exchange. Importers had already started to use up their quotas of foreign exchange for the following months. Meanwhile, Italian exporters had extended credit to an almost prohibitive level, with further arrears putting their businesses at the risk of insolvency.<sup>398</sup> In Munich, Cavaliere Zeroli, head of the *Fasci di Monaco*, told the Italian *polizia politica* that he too had been obliged to sell “wagons of good stuff for Reichsmark” without the possibility of converting the revenues into another currency.<sup>399</sup> The payments agreement would allow export and import, without relying solely on scarce foreign exchange assets, thereby circumventing a major sore point between Italy and Germany.

While Italy sustained the threat of a foreign exchange decree, industrial companies in Germany showed solidarity with their Italian trading partners. The metal processing company

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<sup>395</sup> Giuseppe Tassinari, ‘Aspetti doganali. Esportazione ortofrutticole’, *Il Popolo di Roma*, 19 May 1932.

<sup>396</sup> DB Rom to AA, 1 Jun 1932, PA-AA, R105.642.

<sup>397</sup> DB Rom to AA, 24 May 1932, PA-AA, R117.323.

<sup>398</sup> Federazione Nazionale Fascista del Commercio Ortofrutticolo e Agrumario to Mussolini, 2 Jun 1932, ACS, Fondo PCM, busta 1611.

<sup>399</sup> Polizia Politica Monaco, 5 Apr 1932, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 43.

*Böhme & Hennen* (Dresden) urged the German government not to sacrifice economically important industries in Germany out of support for a policy, forced on the government by agricultural interest. The metal processing sector was described as having been severely hit by the economic crisis, especially by the almost complete closure of export markets in Africa, Australia and Asia. Italy, in contrast and in spite of its tariff increases, still offered valuable export opportunities. Therefore, the company warned strongly against any measure to protect agricultural interest, which could in turn lead to Italian import restrictions on German industrial products.<sup>400</sup> The German trading company *G.F. Stirn*, based in Genoa, warned that the current policy would not only put German exports under pressure while the foreign exchange controls are in place. Their legacy would last longer as it would be “very difficult even in normal times” to win back the former position as a supplier of a certain good because in the meantime the gap would be filled by domestic productions or other competitors.<sup>401</sup>

Neither government dared to declare an open trade war, albeit for different reasons. For the fascist government, nothing less than Italy’s most profitable export market was at stake. Although Rome put the foreign exchange decree into practise, it was immediately suspended until further notice. Moreover, Bonifacio Ciancarelli (MAE) informally hinted that Italy could buy more coal if only Germany bought more agricultural products. For Germany, this was certainly a point to negotiate, as the export of coal played such an important role for the trade with Italy, but it was something else that triggered accommodation. Schubert emphasised that, “from a political point of view it is most undesirable if at the present moment, shortly before the conference of Lausanne, a trade war would break out between Germany and Italy”.<sup>402</sup>

Germany and Italy secretly negotiated a payments agreement that was signed on 15 June 1932.<sup>403</sup> As a first primitive form of a clearing system, Germany created bank accounts for “blocked currency” (“*Sperrmark-Konten*”). Potential German importers short on foreign exchange assignments could now pay in Reichsmark what they lacked in foreign exchange to the *Reichsbank*, and exporters could consequently be paid from the thereby collected funds. The same function was executed in Italy by the *Istituto Nazionale per i Cambi con l’Estero* in

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<sup>400</sup> Böhme & Hennen (Dresden) to AA, 26 May 1932, PA-AA, R240.697.

<sup>401</sup> G.F. Stirn to Stelle für Devisenbewirtschaftung, 16 May 1932, PA-AA, R117.323.

<sup>402</sup> Schubert to AA, 28 May 1932, PA-AA, R117.323. At the conference of Lausanne (16 Jun-9 Jul 1932), Germany achieved a breakthrough in its fight against reparations. The co-operation – and rivalries – with Fascist Italy at the international level will be discussed in Part II.

<sup>403</sup> MAE to various ministries, 21 Jun 1932, ACS, Fondo PCM, busta 1611.



combination with the *Banca d'Italia*.<sup>404</sup> Furthermore, it was agreed that if the prospective funds allowed, Italy should use them to increase coal purchases. However, one suggestion by the Italian negotiators did not find favour with their German counterparts: to relieve the restrictions on tourism. As part of the foreign exchange controls, the German government had established the rule that only a very limited amount of Reichsmark (RM 200) could be taken abroad.<sup>405</sup> Needless to say, that this was a thorn in the flesh of a country with such a great economic interest in tourism.

The strictly secret payments agreement<sup>406</sup> did not remain secret; information leaked out quickly and not unintentionally. The mole was one of the major opponents regarding closer commercial collaboration with Italy. Interest groups of German agriculture,<sup>407</sup> informed about the new institutional basis through trading companies, revealed the details of the agreement to the Dutch, French and Swedish governments. This indiscretion made it very difficult for the German government to explain the unilateral preference of Italy's exports to the other major exporters of agricultural products to Germany.<sup>408</sup> Nevertheless, the government sought to stay its course against the opposition from German agriculture and European governments in order to assist Italy in selling its rich summer harvest. A ministerial decree established to favour German industrial over agricultural interest, and that in dire need of one of the few remaining markets for industrial exports, the payments agreement with Italy, and the beneficial position for its agriculture, would be kept.<sup>409</sup>

This climate of appeasement, encouraged by the recent support of the German government, seemed to provide an opportunity to call the mixed commission of German and Italian producers together. After several delays, Ludwig Kastl and Gino Olivetti finally met on 29 July 1932 in Venice for a first organisational meeting. Kastl seemed to be well qualified, as he had work experience with both the economy and the government. He was the managing director of the RDI, as well as appointed delegate to the League of Nations, where he had led the negotiations over the Young Plan, which settled German reparation debt. His Italian

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<sup>404</sup> Reichsbank to Istituto Nazionale per i Cambi con l'Estero, 29 Jun 1932, ACS, Fondo Iscambi, busta 113.

<sup>405</sup> DB Rom to AA, 4 Jun 1932, PA-AA, R117.323.

<sup>406</sup> 'Protocollo riservatissimo per regolare il pagamento dei debiti commerciali', 15 Jun 1932, Archivio Storico Banca d'Italia, Direttorio Introna, cart. 22.

<sup>407</sup> The Reichsverband des Deutschen Gartenbaus, an interest group of agriculture, declared that it "took outrageously notice of the exchange agreement". Unanimously, it was decided to pressure the government to withdraw from the agreement. Reichsverband des Deutschen Gartenbaus e.V. to AA, 11 Jul 1932, PA-AA, R117.323.

<sup>408</sup> AA to DB Rom, 16 Jul 1932, PA-AA, R117.323.

<sup>409</sup> Reichskanzlei, 'Reichsministerialsache', 29 Jul 1932, BArch, R43 I/1097.

counterpart, Olivetti, was the long-serving president of *Confindustria*, the Italian employers' federation (1910-34).<sup>410</sup>

While at the first meeting only organisational issues were addressed, and no questions of substance were put on the agenda, the looming conflict between the respective interest groups of each country resurfaced. The German delegation pushed to exclude the question of agricultural exports, but Italy, and especially Felice Guarneri – who thereafter became one of the major actors of the German-Italian economic relationship – insisted on its inclusion. As a compromise, two separate sub-commissions were established: one for matters of industry and one for agriculture. However, this compromise did little to smooth over differences regarding agriculture, and indeed the commission was unable to elaborate a programme comparable to that of the industry-commission. The latter was given the task to facilitate cross-country communities of interest. In addition, going beyond the bilateral relationship it was agreed that foreign economic policies should be harmonised vis-à-vis third-party markets.<sup>411</sup> Although not much had happened yet, the commission expressed a desire to accomplish goals in a measured fashion. For the time being, it was decided that both technical sub-commissions would meet in Stresa (Lago Maggiore) in September 1932.<sup>412</sup> However, immediately thereafter the fledgling co-operation collapsed again.

The payments agreement concluded in June 1932 became something of a victim to its own success. Ritter argued that the pressure of other European exporters in search of a similar treatment had recently exceeded the tolerable. While this argument still revealed ongoing support by the German government for closer economic collaboration with Italy, another argument for the cancellation raises doubts about these supportive intentions. The summer months of July and August had seen such an increase of Italian agricultural exports supported by the new payments agreement that the balance of trade turned positive for Italy, a development completely unacceptable to German foreign economic policy. At first, Berlin tried to amend the agreement to restore a German trade surplus, but Rome refused. Therefore, in September 1932, the German government opted for the second, harsher choice: the unilateral cancellation of the payments agreement.<sup>413</sup> From a rather technical dispute, the

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<sup>410</sup> Gino Olivetti, who was of Jewish faith, had to leave Italy in 1938, and moved to Argentine.

<sup>411</sup> Patterns of German-Italian collaboration and rivalries on third-party markets will be addressed in part III.

<sup>412</sup> 'Aufzeichnung über die Erste Produzentenbesprechung', 29 Jul 1932, PA-AA, R241.114.

<sup>413</sup> Ritter (AA), 17 Sep 1932, PA-AA, R105.642.

matter had evolved into a political conflict, one in which the Duce himself tried to intervene.<sup>414</sup>

However, not only did Germany maintain the cancellation, it went even further. Early in September 1932, *Banca d'Italia* representative Cimino reported from Berlin that the German government was about to submit agricultural goods to import quotas. When *Il Messaggero* published the announcement of these sanction, it left Italy, according to the German embassy, in “utter dismay”.<sup>415</sup> Already the practise of not providing a sufficient amount of foreign exchange to potential importers was described by Rome as prohibitive, but it had been rather broad and implicit still. The import quotas on agricultural products, that is, the administrative determination of maximum import quantities of certain goods, was considered an open blow against Italian economic interests.<sup>416</sup> For the Italian negotiators, the quotas called into question the entire renegotiation of the payments agreement.

Germany instead argued that only parts of the exports would be subject to quotas, and that negotiations should carry on. The *Reichsbank* was in general against quotas, and warned that it could not guarantee monetary stability in case of their application – a warning that was also perceived in Rome.<sup>417</sup> After all, it was clear to the German embassy in Rome that, if the cancellation remained the last word, “Italy will respond with counter-measures, which will not only severely hit our economy, but must also harm politically to an utmost extent”.<sup>418</sup> The embassy, in this instance, was backed by the *Reichverband des Deutschen Gross- und Überseehandels*, the lobby organisation of wholesale and foreign trade, which warned against the “great danger” the cancellation would cause.<sup>419</sup>

Nevertheless, to Rome the German proposal for an amended payments agreement, and especially the “Swiss clause” (*Schweizerklausel*) therein, was simply unacceptable. The clause, deriving from the German-Swiss commercial contract, established that a clearing system should not lead to a change in export composition, that is, the balance between agricultural and industrial imports should be maintained. Italy argued that this was a mighty sword in the hands of the German agricultural lobby as the world economic crisis weighed

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<sup>414</sup> Mussolini to DB Rom, 22 Sep 1932, PA-AA, R105.642.

<sup>415</sup> BDI Berlino to BdI, 1 Sep 32, Archivio Storico Banca d'Italia, Segretatia Particolare, cart. 227, fasc. 1.

<sup>416</sup> DB Rom to AA, 6 Sep 1932, PA-AA, R117.323.

<sup>417</sup> The Banca d'Italia representation in Berlin based its report on the Reichsbank's rejection of quotas on German newspapers. See BDI Berlino to BdI, 15 Oct 1932, Archivio Storico Banca d'Italia, Segretatia Particolare, cart. 227.

<sup>418</sup> DB Rom to AA, 8 Sep 1932, PA-AA, R241.114.

<sup>419</sup> Reichverband des Deutschen Gross- und Überseehandels to AA, RWM, RFM, 14 Sep 1932, PA-AA, R117.324.

heavily on Italy's industrial exports to Germany. The clause would enable Germany to diminish Italian agricultural exports in accordance with the already-decreased industrial exports.<sup>420</sup> That was more than Rome was willing to ask from Italy's agricultural lobby.

From this point of barely concealed tensions, the conflict escalated into the "foreign exchange war" of September and October 1932. The Italian involvement in the conflict came in a renewed form of its earlier threat, a foreign exchange decree, which in June 1932 had resulted in a German capitulation. This time it was designed with an even greater hostile intent. While the German foreign exchange controls covered equally every country and every trading partner, thereby representing a matter of currency protection, the Italian foreign exchange decree, instead addressed solely Germany (and Yugoslavia).<sup>421</sup> According to the AA, its one-sided orientation made it a "downright reprisal".<sup>422</sup> The German share in the conflict was certainly no less aggravating. The trade political committee (*Handelspolitischer Ausschuss*) – a government body founded in 1925 uniting the major representatives of foreign economic policy making, which became the "perhaps most important foreign economic policy institution" of the German government<sup>423</sup> – ruled that the Italian decree should be answered with a complete cessation of payments to Italy.<sup>424</sup> The Reich Chancellery warned that if the perilous Italian measure was left unchallenged, other countries like Switzerland, France and the Netherlands would be likely to introduce similar foreign exchange rules; indeed, they were already starting to talk about doing so. Consequently, Germany's "entire trade surplus will [...] disappear very soon".<sup>425</sup>

With the established commercial relationship in jeopardy, the technical dispute-turned-political conflict finally became a public event. The newspaper *Die Welt am Montag* led with the headline, "Mussolini bans German imports". The article warned that companies from other countries like France, Switzerland, Czechoslovakia and Britain had begun to breach the Italian market already, thereby making the German merchants victims of their government's autarkic policies.<sup>426</sup> *Il Messaggero* countered that Italy "was never an initiator of a restrictive commercial policy". Moreover, what the German newspapers belittlingly described as a

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<sup>420</sup> Ritter (AA), 3 Oct 1932, PA-AA, R105.643.

<sup>421</sup> 'Norme relative ai pagamenti die merci provenienti dalla Germania', *Il Messaggero*, 1 Oct 1932.

<sup>422</sup> AA to DB Rom, 29 Nov 1932, PA-AA, R117.324.

<sup>423</sup> Sachse, 'Einführung "Mitteleuropa"', p. 21. For the trade political committee see C.M. Kimmich, *German foreign policy, 1918-1945: A guide to current research and resources* (Lanham, 2013), p. 14.

<sup>424</sup> Handelspolitischer Ausschuss, 3 Oct 1932, PA-AA, R105.643.

<sup>425</sup> Reichskanzlei, 4 Oct 1932, BArch, R43 I/1097.

<sup>426</sup> 'Mussolini sperrt die deutsche Einfuhr', *Die Welt am Montag*, 3 Oct 1932.

“consolidation of the status quo” when they argued in favour of a German surplus in trade, was for *Il Messaggero* simply extremely damaging to Italy’s economic interests.<sup>427</sup>

It became clear that the stalled negotiations were in need of a real compromise if they were to begin to move again. Only an agreement that embraced the conflict in all its facets, thereby solving the foreign exchange problem, as well as the German quotas, could promise success. The German embassy, an incessant supporter of German-Italian reconciliation, feared that “an economic war of the worst type [...] will impinge on the Italians general political stance” with regard to Germany. Therefore, it strongly supported concessions in the thorny matter of quotas.<sup>428</sup> In reviewing the Italian manoeuvres in the “foreign exchange war”, the *Banca d’Italia* summarised that “our action could not have been launched at a more opportune time”.<sup>429</sup>

A first breakthrough was achieved at a meeting of Bonifacio Ciancarelli (MAE) and Germany’s Ambassador Schubert. While Ciancarelli mitigated Italy’s refusal of any quotas, Schubert held out the prospect that Germany, firstly, could allow a free composition of industrial and agricultural imports (that is, no “Swiss clause” for Italy), and secondly, agrees to a relatively short period of cancellation.<sup>430</sup> As a result of this meeting, a protocol was signed on 15 October 1932, which eliminated the mutual threats to the German-Italian trade and reinstated the payments agreement of summer 1932, albeit with one major change: the introduction of the “Swedish clause” (*Schwedenklausel*). After other European exporters had responded to the special treatment of Italy with envy and demands for similar treatment, the negotiations with Sweden at the end of September spawned a system that allowed Germany to prefer unilaterally certain bilateral trade relations, without risking a deterioration of the trade balance. This ruse was made possible by establishing a German surplus in trade as a rule in the payments agreement with Sweden, and shortly thereafter, in the renewed agreement with Italy.<sup>431</sup> The protocol set the year 1931 for the fixing of the balance of trade, when the ratio was 3 : 2 in favour of Germany.<sup>432</sup>

Both north and south of the Alps the protocol was received with provisional recognition mixed with a critical view on the long-term development. The stock markets in

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<sup>427</sup> ‘I nostri scambi commerciali con la Germania’, *Il Messaggero*, 24 Dec 1932.

<sup>428</sup> DB Rom to AA, 9 Oct 1932, PA-AA, R105.643.

<sup>429</sup> BdI Berlino to BdI, 4 Oct 1932, Archivio Storico Banca d’Italia, Segretaria Particolare, cart. 227, fasc. 1.

<sup>430</sup> DB Rom to AA, 12 Oct 1932, PA-AA, R105.643.

<sup>431</sup> AA, ‘Protokoll zur Besiegelung des Devisenstreits’, 17 Oct 1932, PA-AA, R105.643.

<sup>432</sup> ‘Der Lire-Frieden. Und die Bedeutung der “Schweden-Klausel”’, *Berliner Börsen-Courier*, 17 Oct 1932.

both countries reacted to the news with significant gains.<sup>433</sup> The German newspapers saw it as a fair compromise. The liberal premium newspaper, *Vossische Zeitung*, for instance, wrote that, “whereas Italy forbears from the planned reduction of its trade deficit with Germany, Germany forbears from the planned increase.”<sup>434</sup> For the *Frankfurter Zeitung*, the agreement simply established international economic justice, because only with a positive balance of trade was Germany able to meet its liabilities.<sup>435</sup> In Italy, too, the press tended towards appraising this agreement as a fair compromise. *Corriere della Sera*, for instance, claimed that Italy had cleared up for both countries an unfavourable situation, for which it was not responsible.<sup>436</sup> However, at times reports hailed victory. Exceptional for its harsh tone was the *Lavoro Fascista*, writing that, “Italy had energetically fought back an attack of the German customs and financial policy [...] and did reduce the too reckless aggressor to its owing and appropriate position”.<sup>437</sup> Polemics aside, in its unfettered support for rebalancing trade the article is one indicator that the general conflict over surplus and deficit was anything but resolved.

Mistrust persisted not only in the nationalistic press, but also in public administration. After the end of the “foreign exchange war” the *Banca d’Italia* carefully studied Germany’s balance sheets produced by the *Statistisches Reichsamt*, and detected significant divergences with its own data. It suspected the German estimations of systematically overrating transportation costs, expenditure on tourism and the service of principal and interest in order to make the German surplus appear as small as possible. Actually, so the Bank reckoned, the situation was changing at the expense of Italy, because in 1932 German reparation payments were cancelled, thereby removing from the balance of payments one of Italy’s major items to balance the German surplus in trade (see Table 2).<sup>438</sup> Another indicator for persisting mistrust was the short notice period required for the cancellation of the agreement. This was stipulated in order to quickly react to trade policy measures by the respective other. This had appeared necessary already in the following year, the year of the Nazi seizure of power.

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<sup>433</sup> BdI Berlino to BdI, 17 Oct 1932, Archivio Storico Banca d’Italia, Segretaria Particolare, cart. 227, fasc. 1.

<sup>434</sup> ‘Der Devisenfriede von Rom’, *Vossische Zeitung*, 17 Oct 1932.

<sup>435</sup> ‘Der zufriedenstellende Devisenvertrag mit Italien’, *Frankfurter Zeitung*, 19 Oct 1932.

<sup>436</sup> ‘L’accordo italo-tedesco sul pagamento dei debiti commerciali’, *Corriere della Sera*, 18 Oct 1932.

<sup>437</sup> ‘Tutti debbono prendere atto’, *Lavoro Fascista*, 18 Oct 1932.

<sup>438</sup> BdI Berlino to BdI, 1 Dec 1932, Archivio Storico Banca d’Italia, Fondo Studi, cart. 155, fasc. 1.

*Table 2: German exports and reparations to Italy 1925-1931 (in million RM)*

	reparations	exports
1925	56.4	422.6
1926	69.9	486.1
1927	74.9	461.5
1928	110.1	546.9
1929	131.1	602.4
1930	69.9	484.1
1931	37.4	340.8

Source: Statistisches Reichsamt, 19 April 1932, PA-AA, R241.113.





## **Chapter 3: Political Will and Economic Realities after the Nazi Seizure of Power**

### ***Introduction: Institutions of the Economic Relationship before and after 1933***

Chapter 2 has shown how in 1929 new opportunities for the German-Italian commercial relationship arose. The fascist government altered its foreign economic policy by encouraging agricultural exports at the expense of its protectionist support for domestic industries as had happened with the “battaglia per la economia”. Germany, given its Europe-wide unchallenged demand for Mediterranean products provided by far the biggest market for Italian products. On the opposite side, Berlin was desperately looking for open markets for its industrial exports, which encountered ever increasing trade barriers on international markets. Above all, the German government needed international support for its battle against the vehemently opposed peace regulations obligating Germany to reparation payments and armament restrictions.

While the basic conditions were promising, there were also opponents of a compromise of “lemons for machines”. German agricultural lobby groups refused to accept any generous accommodation of Italian products on the German market, and even tried to push Berlin towards harsher import restrictions. Meanwhile Italian manufactures still caused suspicions in Germany that counterfeiting and discrimination hampered businesses and investments in the Italian market. The spiral of protectionism assured the continuation of the commercial deadlock. What was more, not only interest groups appeared irreconcilable. The question of surplus and deficit in trade, which had the potential to escalate into a “foreign exchange war” remained a sticking point between the two governments.

While the conflicts repeatedly led to the collapse of initiatives for better economic collaboration, government negotiations in 1932 created two compromise-facilitating institutions. The first was the German-Italian commission of producers, which gathered private business stakeholders to overcome commercial disputes, and the second was the payments agreement, which guaranteed German payments in spite of the harsh foreign exchange controls. The payments agreement was almost forced upon Berlin by the very demanding Italian negotiators. But the mechanism of the payments agreement also allowed

the fixing of surplus and deficit in trade, and was therefore potentially in the interest of the German government.

Chapter 3 demonstrates the impact of the Nazi seizure of power on the newly founded commercial institutions. Of course, one would expect that Hitler's regime would go even further than the last governments of the Weimar Republic, which had given a clear advantage to Italy's export interest over some of its European competitors. Yet some crucial questions and demands had remained unanswered, and the Nazi regime was with Hjalmar Schacht's "new plan" designing a foreign economic policy that would completely change Germany's economic relations with Europe. To understand the changes after 1933, Chapter 3 investigates the first immediate responses to the Nazi seizure of power in the economic sphere. Thereafter, it looks at one of the booming sectors of the interwar period, artificial fibres. This scrutiny allows us to better understand the actual functioning of the economic relationship at the business level. Finally, Chapter 4 looks at the establishment of the commercial institutions that governed the German-Italian commercial relationship till the collapse of the "Axis" in World War II.

### ***1. Brothers in Mind Down to Business?***

Adolf Hitler's election as Reich Chancellor in January 1933 excited public opinion in Italy. With a German government apparently closer to fascism, new initiatives for economic collaboration seemed possible. In a review of the Italian press, the *Deutsche Allgemeine Zeitung*, a conservative newspaper owned by a group of large corporations (including the Stinnes group), detected everywhere in Italy the hope that the "Reich chancellor Hitler is proof for the fascists' claim that our century will be under the banner of the fascists". The Nazi government was expected to pay more attention to the relationship with Italy than had the previous governments of the Weimar Republic. However, on a more cautious note, the Italian press also warned Germany not to pursue "cruelties in the economic sphere" against Italy, as had happened before.<sup>439</sup> By referring to a Renzetti report from Berlin, the MAE was convinced that a more solid construction of the Italian-German commercial relationship would, "demonstrate how two economies, inspired by the same basic principle, are most

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<sup>439</sup> 'Hitler und der Faschismus', *Deutsche Allgemeine Zeitung*, 2 Feb 1933.

suitable to fight and face the current difficulties.” A joint action should “stimulate the consumption of products to a vast extent, and support the entities of commercial exchange”.<sup>440</sup>

In Germany, despite the unquestionable seminal change of the year 1933, the same protagonists still steered economic relations, and the same divided attitude with regard to Fascist Italy prevailed. The embassy in Rome summarised the attitudes as almost entirely consisting of two diametrically opposing attitudes:

...one, proclaiming the German-Italian front, and holding Mussolini as [Germany’s] only friend, expecting from him the possible and the impossible; the other, who discounts Italians as proved unreliable people, castigates their phoniness, and highlights the difference between certain declarations of Mussolini and the actual comportment, for instance, of his delegates in Geneva.<sup>441</sup>

Both attitudes were for Ambassador Ulrich von Hassell<sup>442</sup> equally wrong, and he demanded a more realistic approach to build up the relationship on the shared goal, that is, the opposition to French ascendancy. And yet, he was also aware of the major obstacles still impeding the realisation of rapprochement: the “Austrian question”, and the “commercial annoyance” over the respective trading partners.<sup>443</sup>

Hitler tended more towards an enthusiastic attitude. He had admired the Duce’s style of staging the masses and his behaviour as a genuine leader since the early movement days of the NSDAP.<sup>444</sup> In 1931, he told Mussolini via their middleman Renzetti that Mussolini’s “sympathy for the national-socialist movement, [he] shared for fascism extraordinarily and for many years”.<sup>445</sup> The actual depth of Hitler’s knowledge of the German-Italian commercial relationship in 1933 is very difficult to judge from today’s perspective. However, even if he

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<sup>440</sup> MAE to various ministries, 29 Jan 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>441</sup> DB Rom to AA, 6 Oct 1933, PA-AA, R105.643.

<sup>442</sup> Ulrich von Hassell, trained in law and economics, served as German Ambassador in Rome from 1932 to 1937. He was a key figure not only for the German-Italian relationship, but also for both countries’ expansion into Southeastern Europe. Before coming to Rome he had served in the German legation in Belgrade. After Rome, he was appointed to the *Mittleuropäischer Wirtschaftstag* (MWT), an interest group supporting the idea of an economic bloc in Central Europe with Germany at its heart. Cf. C. Freytag, *Deutschlands “Drang nach Südosten”*: *Der Mittleuropäische Wirtschaftstag und der “Ergänzungsraum Südosteuropa” 1931-1945* (Göttingen, 2012).

<sup>443</sup> DB Rom to AA, 6 Oct 1933, PA-AA, R105.643. For the double-sided pursuit of leverage on Austria see part II.

<sup>444</sup> Already in August 1920, when Mussolini was not yet in power, Hitler claimed that Germany’s given ally against France would be Italy. See Woller, ‘Hitler, Mussolini’, pp. 34-47, 36. But only with the re-foundation of the NSDAP in 1925 did Hitler’s conviction come into force within the party. See S. Breuer, “‘Deutscher Faschismus’”. *Das italienische Vorbild in der radikalen Rechten der Weimarer Republik*, in M. Bach and S. Breuer, eds., *Faschismus als Bewegung und Regime: Italien und Deutschland im Vergleich* (Wiesbaden, 2010), pp. 157-203, 159.

<sup>445</sup> Hitler to Renzetti, 8 Jun 1931, BArch, NL 1235/3.

had known about the imbricated conflicts in the commercial sphere, it is likely that he would not have attached great importance to them. In a meeting with agricultural experts of the NSDAP he declared that he was “not thinking in the first instance of economic matters.” For his ultimate goal, a “new social order” for Europe, economic thinking was dismissed as “liberal games”.<sup>446</sup> In his “second book”, written in 1928, Hitler did not attach importance to foreign commerce or economic aspects, and accordingly saw no “natural frictions” with Fascist Italy.<sup>447</sup>

The Duce, in contrast, did not share the same personal sympathies towards Hitler.<sup>448</sup> In particular the fight over Austria’s independence blackened his view of the Nazi leader. According to Fulvio Suvich, under-secretary of state for the MAE and the mastermind behind Italy’s foreign policy with regard to Austria and Southeastern Europe, Mussolini portrayed Hitler as a “*belva humana*” (human beast).<sup>449</sup> What the Duce did seem to have in common with the German dictator was that the quite-technical questions of foreign economic policy did not always catch his attention.<sup>450</sup> According to a Roman coal trader interviewed by the *polizia politica*, the Duce “was not able to understand and foresee the consequences” of major changes in foreign commerce as he had to rely on his experts, and among those “nobody could pretend that he is competent”.<sup>451</sup> When during World War II public spending as well as foreign debt got out of control, Mussolini commented that “financial problems do not exist for States. States collapse only under the weight of defeat or because of an internal disintegration of morale”.<sup>452</sup>

Feedback coming from private businesses regarding the Nazi seizure of power seemed to be in concordance with Mussolini’s ambivalent attitude towards Nazi Germany. The manufacturer *Böhme & Hennen* (Dresden) noted that several Italian customers expressed great admiration for Germany under Hitler’s reign, which was perceived as a “friendly and fascist nation”. Such compliments, however, were accompanied by worries about the frictions underlying the commercial relationship. *Böhme and Hennen* understood them as appeals to the German government to pay attention to Italy’s commercial needs and not to insult a

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<sup>446</sup> Quoted in Kaiser, *Economic diplomacy*, p. 61.

<sup>447</sup> Quoted in Kube, *Pour le mérite*, pp. 78-79.

<sup>448</sup> See Scarano, *Mussolini e la Repubblica di Weimar*, p. 535.

<sup>449</sup> Suvich and Bianchi, *Memorie*, p. 69.

<sup>450</sup> Chapter 4, Section 1 provides an example that it was even possible for a trade expert like Felice Guarneri to enact a policy different from what Mussolini had set out.

<sup>451</sup> Polizia Politica Milano, 17 May 1935, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 177.

<sup>452</sup> Quoted in Raspin, *The Italian war economy*, p. 118.

country that represents a viable export market for the sake of a “few hundred tons of vegetables and oranges” less on the German market.<sup>453</sup>

In Northern Italy’s industrial triangle, a certain level of scepticism regarding the economic relationship with Germany persisted. The information leaked through to the German embassy that Piero Puricelli, entrepreneur and president of the Milan fair, after a visit to Germany where he had also met Hitler did not waste too many positive words on his hosts. One should not be deluded by assumed similarities between the political systems, Puricelli insisted in a meeting with the Duce. Italy would be better off not unilaterally co-operating with an “alien nation”, whose economy and public finances are in precarious disorder. Instead, Puricelli urged the government to maintain a certain level of commercial openness, and develop closer ties with France. Puricelli’s remarks were paid careful attention in the AA because they were expected to represent a widespread attitude of business representatives in Italy’s industrial triangle.<sup>454</sup> That this expectation was not exaggerated is supported by a report of the *polizia politica*, which concluded that, “economic circles look with suspicion at the new facts“.<sup>455</sup>

Nevertheless, enthusiasm was growing among the people for supposed advances of fascism in Europe, and to make a business out of it, Italy and Germany immediately began to negotiate a new tourism agreement. Italian demands that the German authorities facilitate tourism date to before the Nazis seized power. In 1931, Fulvio Suvich, then commissioner for tourism (*Commissario per il Turismo*), had issued a warning that the German government intended to introduce a tax on its citizens abroad, which would cause “extremely noticeable damage” to Italy’s tourism industry.<sup>456</sup> The tax proposal came at a very bad time, as shortly after the eruption of the world economic crisis, fascist Italy had been exploring tourism as a very lucrative business. In 1931, 240,000 German citizens travelled to Italy, equal to approximately 24 per cent of all the visitors to Italy.<sup>457</sup> An article in *Echi e Commenti* emphasised that tourism’s biggest advantage was that, unlike the export of goods, it brought in cash in local currency. Moreover, no primary products had to be imported, as in the case of industrial production in a resource-poor country. The article called on the government to

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<sup>453</sup> Firma Böhme & Hennen to AA, 28 Feb 1933, PA-AA, R117.782.

<sup>454</sup> DB Rom to AA, 28 Jul 1933, BArch, R43-II/1447.

<sup>455</sup> Polizia Politica Roma, 20 Mar 1934, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 43.

<sup>456</sup> Appunto per Mussolini, 26 Jul 1931, ACS, Fondo PCM, busta 1699.

<sup>457</sup> RWM to AA, 18 Feb 1933, PA-AA, R117.325; Cf. Liebscher, *Freude und Arbeit*, p. 33.

stimulate tourism and include it in the negotiations of commercial contracts.<sup>458</sup> Such government support was essential at this time because the collapse of the gold standard, with some countries, including Germany, introducing harsh foreign exchange controls, had made it very difficult for potential tourists to Italy to take money abroad.<sup>459</sup>

Previous to 1933, attempts to improve the institutional ground for tourism had failed due to largely incompatible expectations and international agreements. For the Italian tourism industry, the lump sum of RM 200 granted to every German tourist in Italy by Germany's foreign exchange authorities was far from what tourists would have liked to spend. Already at the end of 1932, German ministries were cautiously optimistic that a higher amount of foreign exchange could be granted to German tourists, but only if Italy was prepared to increase its purchases of German coal in return. This was not too easy a requirement, as Italy still bought a significant amount of its coal from Britain, and did not intend to snub a crucial trading partner by shifting these imports to Germany.<sup>460</sup>

Only two months in office, the new Nazi government enabled a compromise by reducing the German demands.<sup>461</sup> On 8 March 1933, both governments signed a treaty "to facilitate German tourist traffic to Italy". Germany now allowed every tourist RM 500, and Italy declared it would buy coal to the tune of RM 5 million via the state railway company (*Ferrovie dello Stato*). Whereas Berlin was keen to make the agreement public as soon as possible, because similar negotiations with other countries were pending, Italian negotiators exhorted the German government to utmost secrecy in order to veil the coal deal from Britain.<sup>462</sup> A solution to this dilemma was found by separating the agreement into two separate contracts, one for tourism and the other for coal.<sup>463</sup> The local newspaper *Trentino* celebrated the treaty as "a present from Hitler", a depiction little appreciated by the MAE.<sup>464</sup>

The success of the treaty did not stop either party from complaining about it. Already during the negotiations, the German delegation had failed to insist that Italy's protectionist tariff rates on industrial imports be reduced.<sup>465</sup> Once the agreement had been put into practice, it was only a few months until the MAE, at the height of holiday-time, complained in a memorandum about contradictory measures taken by German government institutions.

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<sup>458</sup> 'Comunicazioni e Turismo', *Echi e Commenti*, 25 Nov 1932.

<sup>459</sup> Polizia Politica Monaco, 29 Apr 1932, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 43.

<sup>460</sup> AA, 14 Dec 1932, PA-AA, R117.324.

<sup>461</sup> MAE to MCorp, 4 Jan 1933, ASMAE, AC, Germania, 1934, pos. 31-56.

<sup>462</sup> MCorp to MAE, 20 Jan 1933 ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>463</sup> Ulrich (AA), 30 Jan 1933, PA-AA, R105.643.

<sup>464</sup> MAE, 20 Jan 1933, ASMAE, AC, Germania, 1934, pos. 31-56.

<sup>465</sup> MCorp to MAE, 20 Jan 1933 ASMAE, AC, Germania, 1934, pos. 1-4.

Whereas the German authorities had granted RM 500 per tourist and stay in Italy, they granted RM 1,000 for voyages to Austria, thereby adding fuel to the fire of the conflict over Austria's independence.<sup>466</sup> Moreover, Rome complained that German government officials had been refused permission to take their holidays in Italy.<sup>467</sup> Confronted with the charges, the German government had to admit that such regulations did exist in the Southern states of Germany. However, it tried to talk its way out of the awkward situation by assuring the Italians that the Reich government had never instructed the states to introduce such regulations, but would now make sure that they were lifted.<sup>468</sup> Although Italian authorities still continued to complain about several claims in German newspapers to boycott Italy as a tourist destination, they also admitted that these campaigns had no impact on the actual number of German tourists in search of *la dolce vita*.<sup>469</sup> That said, the AA complained about the treaty, too. It argued that Italy did not have any reason to weep, as by the end of July, RM 8.7 million had been assigned for tourism, whereas Italy was per contract only obliged to buy RM 5 million of coal for the entire year.<sup>470</sup>

Soon after the rejoicing over the new Nazi government abated, contradictory evaluations of the commercial relationship went public. In summer 1933, several articles appeared in Italy attacking the German foreign economic policy. Perhaps not surprisingly, one of those to comment was the ex-minister for national economy, Giuseppe Belluzzo, in the *Gazzetta del Popolo*. After a short introduction about the beneficial and reliable commercial relations with Britain and France, he claimed that the "excellent diplomats of Germany" were in fact commercial agents of Germany's big businesses. In this role, their aim was to regain their pre-World War I dominant market shares in Italy.<sup>471</sup>

While this article could easily be shrugged off as an exaggeration and a propagandistic message from the pen of the president of the *Comitato per il Prodotto Italiano* (Committee for the Italian Product), several articles in *Il Sole*, the main newspaper of Milan's business community, worried the Germany embassy. "In an almost grotesque manner [*Il Sole*] increases Germany's advantages from the commercial relationship, and diminishes Italy's". In numbers, *Il sole* argued that Germany increasingly discriminated against imports from Italy,

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<sup>466</sup> Austria's independence was increasingly called into question since the Nazi seizure of power. One of independent Austria's strongest supporters was Fascist Italy. See thesis part II, and Collotti and Labanca, *Fascismo e politica di potenza*, pp. 46-53.

<sup>467</sup> MAE Memorandum, 3 Aug 1933, PA-AA, R117.325.

<sup>468</sup> AA, 21 Aug 1933, PA-AA, R117.325.

<sup>469</sup> MAE to AI Berlino, 26 Apr 1934, ASMAE, AC, Germania, 1934, pos. 31-56.

<sup>470</sup> AA, 21 Aug 1933, PA-AA, R117.325.

<sup>471</sup> Review of the article by DB Rom, 14 Jun 1933, PA-AA, R240.861.

which was unacceptable given that, for the period 1926-32, Germany had accumulated a surplus of RM 1,400 million in trade, of which half came from trading with Italy. The *Frankfurter Zeitung* emphatically contradicted this evaluation and argued that the value of Italy's exports had remained the same since 1932, and that its deficit was actually falling constantly. In an interesting case of transnational interference, the German-Italian chamber of commerce in Milan published articles in the Milan based newspapers *Sera* and *L'Ambrosiano*, which provided the official Italian balance of trade for the month of August. Thanks to rich agriculture exports after the summer harvest, the balance of trade had turned out to be positive for Italy.<sup>472</sup> This news was held up to win the battle against the Mcorp, which was suspected to be the agitator behind the *Il Sole* articles, over the correct evaluation of the balance of trade within the business community of Milan, the bottleneck of the German-Italian commercial relationship.

Italian sensitivities with regard to the balance of trade were also triggered by international calls for a boycott of German products in reaction to the atrocities against businesses of "Jewish ownership" after the Nazi seizure of power. In an article in the Polish-Jewish newspaper *Nasz Przegląd*, Edoardo Kleinlehrer, the Italian correspondent for several Polish newspapers emphasised that, "the course of events in Germany cannot satisfy Italian fascism". In addition to the already huge deficit, the German commercial policy would with its continuing restriction of imports from Italy, "render a close, intimate collaboration with Germany utterly problematic". Instead, measures by "Jewish companies and shops in Rome, Milan, Turin and Geneva" were praised for not only having cancelled their commercial ties with German companies, but also having ensured that their orders from abroad were not transported via Germany. Moreover, Kleinlehrer suggested that Italian products could replace competing products from Germany on the markets of Southeastern Europe and the Eastern Mediterranean where boycott calls had been heard.<sup>473</sup> The *Banca d'Italia's* representation in Berlin reported that it is "beyond doubt that the German commercial surplus is reduced as a result of the foreign boycott in recent months".<sup>474</sup>

Apparently, some members of the German business community discriminated against on religious grounds saw Fascist Italy as a haven from the cruelties in their home country. The

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<sup>472</sup> DB Rom to AA, 31 Oct 1933, PA-AA, R105.913.

<sup>473</sup> 'L'Italia e la Germania Hitleriana. L'azione di boicottaggio delle merci tedesche in Italia', *Nasz Przegląd*, 9 Jun 1934; AI Varsavia to MAE, 28 Jun 1934, ASMAE, AC, Germania, 1934, pos. 5-15. There is evidence that German exporters camouflaged their products in Poland as "made in Italy". See Polizia Politica Roma, 28 Jun 1933, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 45.

<sup>474</sup> BDI Berlino to BDI, 12 Sep 1933, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 230.



archives of the MAE preserve several requests by officials “with positions of first order in the German business environment” for political refuge.<sup>475</sup> Richard Ginsburg, for instance, board member of the *Mitteldeutsche Bodenkreditanstalt*, intended to immigrate to Italy and transfer all his belongings from Germany.<sup>476</sup> However, the case of the Eugen Rambow, vice-director of the Dresdner Bank, provides evidence of the persisting mistrust against the German business community irrespective of their religious persecution. The representation of the *Banca d’Italia* in Berlin, which managed Rambow’s request, felt obliged to warn the headquarters in Rome that, “those German Jews usually have an ambivalent character and especially those from Prussia would like to be most Prussian [*prussianissimi*]”. This character and the predilection toward Germany would remain “even if they at the moment speak about Germany and the Germans as a country and a people distant from them”.<sup>477</sup>

On the official level of the bilateral commercial relationship, Fascist Italy did not try to take advantage of the boycott calls against German products.<sup>478</sup> Mussolini himself “warned [the German government] not to underestimate the Jews and Freemasons, from which a heavy offensive is to be expected”.<sup>479</sup> According to the Suvich memoirs, Hitler personally told Mussolini that he was not preoccupied “with the economic consequences as the boycott would last only very briefly”.<sup>480</sup> In April 1933 the MAE advised the INE to urge Italian exporters with Jewish business clients in Germany to interrupt consignments because payments could no longer be guaranteed.<sup>481</sup> This warning was withdrawn after “no grave consequences with regard to our agricultural export are to be complained about”. For the MAE, all that mattered was that Italian economic interests be protected, and the remark that, “it can be that Jewish businesses were still threatened, but this is a question of domestic politics”<sup>482</sup> shows that there was no support for former business clients.

After all, Germany remained by far Italy’s best client, and both the German press as well as foreign economic policy experts decried the continuing attacks against Germany and the balance of trade by *Il Sole*. The newspaper *Deutsche Allgemeine Zeitung* (DAZ), which focused to some extent on industrial interests, admitted that the public discourse in Germany

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<sup>475</sup> MAE, 5 Apr 1933, ASMAE, AP, Germania, busta 14.

<sup>476</sup> BdI Berlino to BdI, 18 Dec 1933, Archivio Storico Banca d’Italia, Segretaria Particolare, cart. 230.

<sup>477</sup> BdI Berlino to BdI, 29 Sep 1933, Archivio Storico Banca d’Italia, Segretaria Particolare, cart. 230.

<sup>478</sup> Part III of the thesis will show that in third-party markets, and especially in Southeastern Europe, Italy indeed tried to take advantage of the boycott calls against German products.

<sup>479</sup> DB Rom to AA, 6 Oct 1933, PA-AA, R105.643.

<sup>480</sup> Suvich and Bianchi, *Memorie*, p. 186.

<sup>481</sup> MAE to INE, 1 Apr 1933, ASMAE, AC, Germania, 1934, pos. 5-15.

<sup>482</sup> MAE to INE, 15 Apr 1933, ASMAE, AC, Germania, 1934, pos. 5-15.

had used the current catchword “autarchy” all too haphazardly, thereby scaring actual and potential suppliers of the German economy. The ongoing complaints about Italy’s deficit, and the suspicion that Italy, “provides a surplus to Germany so that it is able to pay its debts to other countries with [Italian] money”, were described as “misunderstandings”. In reality, according to the DAZ, Germany’s surplus would not only decrease in absolute terms but also in proportion to the overall decrease of foreign trade.<sup>483</sup> This assessment of the balance of trade was certainly not too far away from reality. The personal files of Karl Ritter, head of the commercial department of the AA, contain a hand-written balance sheet clearly indicating the falling surplus in trade with Italy. While in 1929 a surplus of RM 158.2 million was recorded, it went down to RM 31.2 million in 1933.<sup>484</sup> Keeping this development in mind, it seems that the harsh accusations against the supposedly unfavourable balance of trade can be read as a way of developing one of the most lucrative markets for Italian agriculture, and of warning Germany not to revive agricultural protectionism in order to fight the economic crisis.<sup>485</sup>

In the same manner, on 27 February 1933, at the first workshop of the mixed commission of German and Italian producers in Venice, the Italian delegation led by Dino Olivetti tried to link industrial collaboration to questions of agricultural support. However, the German delegation refused to respond to this demand, explaining that they were not authorised to deal with questions of agriculture. Consequently, the refinement of the scope of the commission remained vague: first, to provide a basis for direct negotiations between representatives of each branch of industry; second, to discuss “general commercial and economic policy questions”; and finally, to co-ordinate a common approach for the upcoming world economic conference.<sup>486</sup> For the latter two it was only agreed to commonly oppose attacks on the most-favoured-nation clause, and demand a settlement of “all political debt”, that is, the inter-allied war debts.

Most of the workshop, however, was absorbed by raising the issues in various industry branches. The German delegation addressed in particular the branches of radio technology, ignition systems, marble, textiles and fibre industry. The issues were manifold and ranged

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<sup>483</sup> ‘Italiens bester Kunde, Missverständnisse um die deutsche Handelspolitik’, *Deutsche Allgemeine Zeitung*, 13 Nov 1933.

<sup>484</sup> AA, ‘Warenverkehr mit Italien’, n.d., PA-AA, R105.643.

<sup>485</sup> The Polizia Politica carefully evaluated every legislative act that seemed to increase agricultural protectionism. See, for instance, Polizia Politica Monaco, 21 Sep 1933, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 43.

<sup>486</sup> The meeting took place four months before the world economic conference in London, which was intended to fight the global depression, but ended as one of the greatest disasters of twentieth century international economic diplomacy. Cf. Clavin, *Securing the world economy*, pp. 84-123.

from planned harmonisation of customs and prices, to closer cross-country collaboration between companies and the elimination of mutual competition on the German and Italian markets, but also with regard to third-party markets. For instance, Germany's customs and import quotas of silk should be styled so as to consider Italy's export interests, but at the same time exclude imports from Czechoslovakia. Similarly, both countries' hemp importers should co-ordinate their purchases to put pressure on the world's biggest supplier of hemp: the Soviet Union. The Italian delegation, on the other hand, was very keen to prevent German companies from undercutting the prices of Italian companies on the Italian market. This demand was expressed for everyday goods like porcelains, but also for goods of strategic importance such as chemicals.<sup>487</sup> While the protocol of the workshop might give the impression that an institution had been found to solve conflicts between private businesses of the two countries, the conflict over artificial fibres that broke out soon after the meeting proved that there was still unaddressed mistrust.

## ***2. Conflict over Artificial Fibres***

The industry of artificial fibres (rayon) was one of the booming industries of the interwar period. In 1928 global production saw, according to the *Banca d'Italia*, a rise from 34 to 169 million kilogrammes. With fierce global competition, prices dropped by 20 per cent.<sup>488</sup> It allowed geographically disadvantaged countries like Germany and Italy to supply their textile industries without importing natural fibres such as cotton. Thus, given a certain size of production, it provided the opportunity to increase export revenues without the heavy preload for companies and the central banks to allocate foreign exchange for the import of foreign natural fibres. Therefore, not surprisingly, the industry received considerable attention from both countries' governments, particularly during the world economic crisis. In addition to the fiscal aspect, fibres such as *casein* – or milk yarn – were designed using the agricultural output as pre-product. This vertical integration created synergies, which also benefited the heavily protected agricultural sector.<sup>489</sup>

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<sup>487</sup> RDI to AA, 7 Mar 1933, PA-AA, R117.782.

<sup>488</sup> BdI Berlino, 24 Jun 1929, ACS, Fondo Istcambi, busta 55.

<sup>489</sup> For a historical overview of the artificial fibres production, which so far has not received much attention by historical research, see 'The Manufacturing Process of Rayon', available: <<http://www.teonline.com/knowledge-centre/manufacturing-process-rayon.html>> (retrieved 16 Jul 2015).

The rayon companies in Germany and Italy were quite modern and highly rationalised, in accordance with contemporary standards and in comparison to other sectors. In Italy, many small businesses popped up throughout the 1920s, while the major companies eventually evolved into being *SNIA Viscosa* and *Châtillon*. According to a contemporary German study of the Italian industry, represented on the world market with its sales cartels *Italviscosa* und *Italraion*, it was able to undercut the other competitors from Germany, the US and Japan. With its highly competitive prices, the industry grew despite global economic turmoil and tripled production between 1929 and 1936.<sup>490</sup> In Germany, the big names were *Vereinigte Glanzstoff-Fabriken AG*, and later in the 1920s, the chemical giant *IG Farben*, which according to an Italian study aggressively undercut the prices of the *Glanzstoff*, always with the excuse of combating Italian dumping in artificial fibres production.<sup>491</sup> At the same time, a new national champion emerged in Germany with *IG Farben*; it seems that *Deutsche Bank* was pulling out of its investment in Italy. The *polizia politica* regretfully estimated that most of the SNIA shares sold over the course of 1931 were previously held by *Deutsche Bank*.<sup>492</sup>

Germany in the 1920s was in a way the Eldorado of the international rayon industry. Already quite a big market with a huge demand, it possessed the lowest customs barriers for artificial fibres in the world. After the outbreak of the crisis and the rise of protectionist borders in many former markets, international production flowed increasingly into Germany, thus alerting the authorities. In 1931 an international syndicate was founded in which the SNIA apparently took the lead.<sup>493</sup> Apart from competing with the British *Celanese Company*, a giant in the sector, it provided a platform for all the stakeholders of the German artificial fibres market. The cartel's task was to channel the imports to Germany in an acceptable way for the authorities worried about foreign exchange reserves and the domestic production in Germany.

However, the internationally co-ordinated action did not meet the planned goals, and imports to Germany continued to come. Then, in turning away from an international approach, in summer 1933 the RWM, under the new Nazi government, allowed every German member to cancel its contracts with the syndicate, thereby deciding its sudden end. One huge problem,

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<sup>490</sup> 'Italiens Kunstfaserindustrie. Straffe Konzernbildung – Snia Viscosa auch in der Zelluloseerzeugung führend', in *Deutsch-Italienische Wirtschaftsnachrichtern* 11 (1942) [BArch, R/9/I-769].

<sup>491</sup> Bdi Berlino, 24 Jun 1929, ACS, Fondo Iscambi, busta 55.

<sup>492</sup> Polizia Politica Milano, 1 May 1931 and 23 Oct 1931, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 174. To the *polizia politica*, IG Farben's investments in artificial fibres was a "colossal threat". See Polizia Politica Roma, 11 Jul 1930, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 174.

<sup>493</sup> Polizia Politica Roma, 11 May 1929, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 174.

however, remained for the government in its search for political allies: How could the national market be protected against foreign competitors without violating Italian interests and risking political repercussions? The Italian stake was quite significant, constituted by a strong presence in this sector, and an even stronger conviction that it had the right to export to Germany because of its trade deficit.<sup>494</sup>

Rome favoured a settlement carried out by a mixed commission of German and Italian producers of artificial fibres, but this encountered resistance.<sup>495</sup> The RWM replied that the question at stake went “far beyond the interest of the producing industries”. The ministries’ espousal of a national production was not in the first place a matter of support for the existing companies in Germany. It was primarily about creating new jobs.<sup>496</sup> The two objectives of the Nazi government, to create jobs for the unemployed masses of the crisis-shaken country, and to placate Italy as one of its few potential allies in Europe, were difficult to reconcile. To sort things out, Posse (RWM) favoured a meeting of government officials over a mixed commission of producers.<sup>497</sup>

Nevertheless, Germany complied with the Italian wish, and allowed a meeting of private stakeholders in the artificial fibres business, with government officials participating as observers. Two different approaches to the regulation of imports to the German market were considered at the meeting. The German suggestion was quite drastic. It still granted low tariff rates, but allowed for a quota of only 40 per cent of the annual imports of 1932. As against this was the Italian suggestion, which set 1931 as the year of reference and guaranteed a quota of 70 per cent. The reason was simple. After 1931 the Italian exports of artificial fibres to Germany had not increased in the same way as had exports from other European competitors (especially from France and the Netherlands). A reduction to 70 per cent of the 1931 imports would mainly diminish the other competitor’s exports, while leaving Italy’s exports fairly untouched. The suggestion was backed by Riccardi’s barely concealed threat that, if no acceptable solution was found, Italy would reconsider some of its own purchases in Germany, namely, its large orders of German coal.<sup>498</sup>

The meeting of private business representatives managed to hit on an agreement based on the German proposal, but did not achieve a breakthrough. The RWM expected from this

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<sup>494</sup> RWM to AA, 19 Aug 1933, PA-AA, R241.115.

<sup>495</sup> DB Rom to AA, 2 Sep 1933, PA-AA, R105.643.

<sup>496</sup> RWM to AA, 11 Sep 1933, PA-AA, R241.115.

<sup>497</sup> RWM (Posse) to MKorp (Asquini), PA-AA, R241.115.

<sup>498</sup> AA to DB Rom, 1 Nov 1933, PA-AA, R241.115.

agreement that, “the Italian government will not make any difficulties”.<sup>499</sup> However, the Italian industrialists did not inform their government, or at least so the German embassy in Rome reported.<sup>500</sup> Whether this proved a conflict between the industrialists and the government or, quite the opposite, a tactical manoeuvre by the Italian government to win time for protective actions, one can only speculate. The fact is, however, that the German government accused its Italian government of filibustering, and threatened to take unilateral steps of harsh quotas for artificial fibre imports. Upon this threat, the MCorp reacted with the counter-proposal that the matter should be solved with an immediate agreement on a short-term basis, coupled with an additional long-term regulation.<sup>501</sup> The promise for better economic co-ordination, which had supported the creation of mixed commissions of business representatives, was not delivered. In the end, the governments intervened heavily in the work of the commission, which they had set up themselves to avoid government regulation, thus proving differing policy goals between private business stakeholders and the governments.

In December 1933, government negotiations hit upon an agreement that Berlin considered a huge concession to Italian interests. The Italian industry could freely suggest a quota for its exports to Germany. Further regulations allowed a very generous handling of transitional issues. Finally, it was agreed that in the case of cancellation the old legal situation – with the old beneficial rules for export into Germany – would be automatically restored. The last cornerstone of trust-building was laid by Berlin’s assurance that it would never conduct any measure effectively introducing an import ban. Yet, the protocol also stated where the German government stood firm. It refused to declare Italian imports as German products, thus allowing for a way to discriminate against the other major producers of artificial fibres. Finally, the compromise was only a short-term arrangement (valid for three months), and therefore still not the definite solution eagerly sought by the Italian government.<sup>502</sup>

What was refused on the official level of contract negotiations was not all. The implementation of the agreement immediately revealed that Germany was actually by no means interested in providing the huge concessions it had officially granted. In the very month the agreement had been signed, the RWM ordered that imports of certain segments of

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<sup>499</sup> Ritter (AA) to DB Rom, 1 Nov 1933, PA-AA, R241.115.

<sup>500</sup> DB Rom to AA, 4 Nov 1933, PA-AA, R241.115.

<sup>501</sup> DB Rom to AA, 23 Nov 1933, PA-AA, R105.643.

<sup>502</sup> RWM to AA, 8 Dec 1933, PA-AA, R241.115.

artificial fibres (delicate fibres) be banned, and already obtained import permissions seized.<sup>503</sup> This “surprising measure” was received in Italy “with great dismay”. Germany argued that the quota assigned to Italy was a global quota, and that it was legally entitled to exclude certain segments as long as the assigned amount in weight was guaranteed with import opportunities for segments of thicker fibres. In the Italian interpretation of the contract, the assigned quota was to be equally distributed among the various segments.<sup>504</sup> That this dispute was in fact more than a legal quibble over a minor technical issue is demonstrated by the fact that fewer export opportunities in the more delicate segments simply meant fewer fibres to be exported in total. The quotas were calculated by weight, and more delicate (that is, lighter) segments would allow for a higher total export. Therefore, Germany was still, despite the agreement, trying to diminish imports from Italy, while Italy was at the same time looking for ways to increase its exports.<sup>505</sup>

The quarrels had a negative impact on private businesses in this sector on both sides. The Milan-based company *A. Andrae & C.* asked the German consulate in Milan for help. The company was connected with Germany, firstly, as it was of German origins, and secondly, because of its many clients in Germany. The crux of the latter relationship was that the company did not produce artificial fibres, but worked in the refinement of these fibres, and refined products were not included in the quota scheme at all. In order to demonstrate the prohibitive, and from the point of view of the governments certainly not-intended regulations of the quotas, the company argued that its customers in Germany were left without supply as there was no domestic German production of these refined products. The intention of the Nazi government to use the quotas for employment support was in this case reversed as the exclusion of the Italian production, vertically integrated with a German production, eventually put also German companies and jobs at risk.<sup>506</sup>

Given the various defaults on the agreement, Italy tried to re-negotiate at the earliest possible time. The provisional agreement expired in March 1934, but already well before that date the MAE delivered a diplomatic note stating that, “the agreement in its actual practise [...] has brought significant difficulties and various inconveniences, which have caused serious damage”.<sup>507</sup> While the note came from the MAE, it was the MCorp that constantly pushed for

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<sup>503</sup> RWM to Devisenstellen, 22 Dec 1933, PA-AA, R117.325.

<sup>504</sup> DB Rom to AA, 21 Feb 1934, PA-AA, R241.115.

<sup>505</sup> RWM to AA, 26 Feb 1934, PA-AA, R241.115.

<sup>506</sup> Firma A. Andrae & C., Mailand to GK Mailand, 27 Feb 1934, PA-AA, R241.115.

<sup>507</sup> MAE to DB Rom, 17 Mar 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

a new agreement, which this time should solve the matter once and for all. If no agreement of this kind could be found, the matter would “weigh heavily on the entire complex of issues with the government of the Reich, still to be solved.”<sup>508</sup>

Nevertheless, it seems that this time Rome was clearly shown the limits of actual or alleged concessions from Berlin. The latter wanted to prolong the regulations of the provisional agreement from December 1933.<sup>509</sup> While initially, the Italian government considered this solution out of the question, the resistance gradually wore down. At the end of March 1934, the German embassy could report that Rome had agreed to extend the established agreement for an indefinite period, thus making the pristine provisional agreement the ultimate regulation of the German-Italian artificial fibres business.<sup>510</sup>

The episode has clearly shown that the change to National-Socialism in Germany, with its apparent fascination for Italian fascism, did not necessarily lead to greater accommodation of Italian industrial needs. What at some stages during the conflict looked like a generous subordination of German economic interests, rather represented tactical manoeuvres to enforce the opposite. Based on the policy goal to favour national production in order to tackle the harsh consequences of the world economic crisis on the labour markets, government policies were different from the aspirations of the private stakeholders in the sector. Consequently, import restrictions tore apart existing transnational business networks. Economic nationalism, which shaped the foreign economic policy of both regimes, thus weighed negatively on both economic performances. As we shall see below, this is not to say that the obvious conflicts immediately attracted the attention of the two dictators.

### ***3. A New Nazi Foreign Economic Policy***

Economic matters were not given priority by the dictators reaching out for each other in 1933/34. Despite the official mutual praise, a meeting between Hitler and Mussolini was long in coming. Several bilateral conflicts, especially over the independence of Austria,<sup>511</sup> and the concern about negative repercussions on the international stage, stalled the initiatives for a direct meeting.<sup>512</sup> First, the pending disarmament issue had to be solved in order not to

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<sup>508</sup> MCorp to MAE, 16 Mar 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>509</sup> AI Berlino to MAE, 15 Mar 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>510</sup> DB Rom to AA, 29 Mar 1934, PA-AA, R241.116.

<sup>511</sup> Cf. Petersen, *Hitler-Mussolini*, pp. 328-359.

<sup>512</sup> AA, ‘Sprechzettel für den Herrn Reichsminister, betreffend die Zusammenkunft Mussolini Hitler’, 7 Apr 1934,



provoke Britain's and especially France's concerns about a shared German-Italian standpoint in security matters.<sup>513</sup> That a meeting then became more likely was, according to a confidential report by the AA, not the consequence of a "special political occasion, or to achieve an urging political purpose, but resulted automatically out of the position of the two head of governments and the friendly relations between the two countries".<sup>514</sup>

However, still in 1933 persisting tension only allowed for a visit of one of Mussolini's major strategists for Austria, Southeastern Europe, and the relationship with Germany: Fulvio Suvich. He was joined by Consul Del Drago for commercial and Colonel Bianchi for military matters. The discussions Suvich led in Berlin, Cologne and Munich centred largely on three aspects: First, the League of Nations after Germany's withdrawal; second, disarmament issues; and third, the "Austrian question".<sup>515</sup> Surprisingly, the current issues in the economic relationship did not garner the importance that they had in the dossier set up by the AA for the preparation of the visit.

The dossier provided arguments to counter the recent surge of indignation in Italy, accusing German companies and public authorities of using the export growth and job creation measures to discriminate against Italian products.<sup>516</sup> The dossier suggested retorting the accusation by referring to a still-ongoing *battaglia economica* and its negative impact on imports from Germany. The reasons that Berlin did not protest against the *battaglia* yet were not such that, "the battle against foreign products did not exist, but only because we have seen that the battle is here to stay [...] and that the concerned circles did come to terms with it". However, "the German industry had been damaged permanently". The dossier also provided examples of good economic co-operation, for instance, the deal "tourism for coal" or the German marketing initiatives in order to accommodate products such as Italian rice. And yet, the examples stood out as exceptions to the general problem (exemplified by the conflict over artificial fibres) that the Italian government opposed any form of quotas, and therefore an important instrument for the German government to tackle its foreign economic problems. In conclusion, these difficulties were taken as a reason to think about "a general revision of the in many respects outdated commercial treaty".<sup>517</sup>

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PA-AA, R30.251.

<sup>513</sup> Steiner, *The triumph of the dark*, pp. 9-56.

<sup>514</sup> AA, 'Vertraulicher Bericht', 23 Jun 1934, PA-AA, R30.251.

<sup>515</sup> These questions will be taken up in Part II of the thesis.

<sup>516</sup> AI Berlino to MCorp, 11 Jan 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>517</sup> AA to various embassies, 20 Dec 1933, PA-AA, R105.643.

The agenda for the meeting between Hitler and Mussolini in Venice looked quite similar. The topics included in the draft of the German embassy in Rome were, “Disarmament, the Austrian problem, the Southeast question, the League of Nations and the European economic situation”. Both sides prepared material on how tackling the latter issue would affect their mutual economic relationship. The outlook seemed very bleak. Mussolini speculated that, “regarding international economic relations, there is complete madness in Europe, which will eventually lead into the decline of the West”.<sup>518</sup>

For the Duce, Berlin-based Renzetti outlined in a report his suggestions for the German-Italian commercial relationship. Of course, spearheading the Italian propaganda in Germany, Renzetti’s suggestions were rather pompous and did not contain immediate, hands-on measures. He supported the idea of developing the German market in order to accommodate more Italian products. This could happen either by exposing Germans in Italy (mostly tourists) to Italian products, which they would keep buying upon their return, or by providing potential export-products to Italian multipliers (such as staff members of the cultural institutes) in Germany. Ultimately, German-Italian joint ventures should facilitate imports from Italy to Germany. Although these plans were still far off, the likely threat to them was already very present. “A serious obstacle [...] represents, for now, the restricted disposal of foreign exchange”.<sup>519</sup>

What was a threat to Italy’s desired configuration of the commercial relationship was at the same time the major objective in the German preparation of the meeting. The positive balance of trade with Italy was paramount and out of the question. Italy’s demands for an even balance by raising Italian exports – “brought forward with ever increasing emphasis” – had to be answered with convincing counterbids. Therefore, it was agreed to offer the attempt to stimulate exports on both sides. In addition, the Italian resistance not only against the German foreign exchange controls, but also the second policy to guarantee a trade surplus for Germany – quotas – was rejected, as the Italian government too would start to implement the same measures.<sup>520</sup>

Taking the two preparations together, it appears that an overall increase of the German-Italian trade was likely. Paradoxically, that was not what either of the two regimes truly desired, but only the lowest common denominator. Rome was keen to increase its

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<sup>518</sup> DB Rom to AA, 23 Apr 1934, PA-AA, R30.251.

<sup>519</sup> MAE to various ministries, ‘Considerazioni sui rapporti commerciali italo tedeschi’, 29 Jan 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>520</sup> ‘Vorbereitung für Reise nach Venedig’, n.d. PA-AA, R105.644.

exports to Germany to reduce its deficit. Berlin, however, was not eager to increase trade with Italy in any event, as it played only a minor role in Germany's foreign commerce. Moreover, Italy offered almost only products that fulfilled no existential need in Germany. For Berlin, top priority was to protect the currency reserves, and therefore to keep a surplus in trade with Italy. Between these opposing goals there remained only the inclination to increase trade, without, however, either Italy reaching an even balance, or Germany diminishing the risk to its beneficial balance of trade.

Perhaps the contradiction vis-à-vis the development of trade was one of the reasons why economic matters were not given the same importance at the meeting of the dictators on 14/15 June 1934 as they had had in the preparations. According to the *polizia politica*, it was rumoured that the visit, "pursued as principal objective negotiations regarding the economic situation of the Reich".<sup>521</sup> Instead, barely any economic matters were discussed. The "Austrian problem" and the hereto associated "Southeast question" dominated the agenda. Nevertheless, even several aspects of this doubtlessly most urgent conflict were carefully avoided, and in the AA's confidential protocol both dictators emphasised repeatedly that Austria, "must not be any hindrance". With regard to the commercial relationship, the protocol only provided the claim that, "everything should be tried to support common interest and to eliminate possible differences".<sup>522</sup> In the end, it seems that the grand lines drawn by the dictators in Venice were still too broad to touch on the rather technical economic matters. The matter was redirected to the experts.<sup>523</sup>

While the dictators in Venice put up a brave front, over the summer of 1934 Hjalmar Schacht – reinstalled by the Nazi government at the top of the *Reichsbank* in 1933, and nominated economics minister in 1934 – implemented the "new plan". The job-creation measures and the early armament initiatives of the Nazi regime had created a buoyant demand, especially in raw materials. Thereby, Germany's central foreign economic problem during the Great Depression again gained momentum: the risk of running out of foreign exchange (see table 3). Therefore, the "new plan" effectively guaranteed state control over the entire flow of imports into Germany. Supervision institutions (*Überwachungsstellen*) replaced the disused foreign exchange authorities. While state control of cross-border transactions used to be interventionist, it now became a precondition for a transaction, thus confronting trade with a

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<sup>521</sup> Polizia Politica Roma, 19 Jun 1934, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 43.

<sup>522</sup> AA, 'Vertraulicher Bericht', 23 Jun 1934, PA-AA, R30.251.

<sup>523</sup> AI Berlino to MAE, 22 Jun 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

whole new dimension of administrative burden.<sup>524</sup> In addition, Schacht expanded the export subsidy scheme and supported clearing agreements in order to stimulate trade without the flow of foreign exchange.<sup>525</sup>

Table 3: Development of Germany's and Italy's balance of trade 1929-1937

	Germany					Italy				
	Import	Export	Balance	Import	Export	Import	Export	Balance	Import	Export
	Value (million RM)			1929 = 100 (%)		Value (million Lire)			1929 = 100 (%)	
1929	13,447	12,663	-784	100	100	21,665	15,236	-6,429	100	100
1930	10,393	11,328	+935	77.3	89.5	17,347	12,119	-5,228	80.1	79.5
1931	6,727	9,206	+2,479	50	78.7	11,643	10,210	-1,433	53.7	67.0
1932	4,666	5,677	+1,011	34.7	44.8	8,268	6,812	-1,456	38.2	44.7
1933	4,204	4,871	+667	31.3	38.5	7,432	5,599	-1,441	34.3	39.3
1934	4,451	4,167	-284	33.1	32.9	7,667	5,225	-2,442	35.4	34.3
1935	4,159	4,270	+111	30.9	33.7	7,790	5,238	-2,552	36.0	34.4
1936	4,218	4,768	+550	31.4	37.7	6,039	5,547	-492	27.9	36.4
1937	5,468	5,911	+443	40.7	46.7	13,837	10,429	-3,408	63.9	68.4

Source : Economic Committee, 'Commerce extérieur de certains pays', 29 Jun 1938, LON, R4402.

Berlin gave the starting signal for the “new plan” with the temporary suspension of all payments agreements it had concluded with its major European trading partners in order to adjust them with the new regulations. The *Reichsbank* explained the measure to the *Banca d'Italia* as necessary because German importers had abused the regulatory framework to an extent that rendered foreign exchange controls ineffective.<sup>526</sup> By contrast, the secretly convening trade political committee (*Handelspolitischer Ausschuss*) did not show so much consideration for Italy. It concluded that there is “general agreement that economic reasons do not contradict a reduction of imports from Italy”. At the same time, the committee agreed that the Nordic and Southeastern European countries<sup>527</sup> should be, “practically not affected by the new plan”, clearly indicating that Italy's export needs were not made a priority under the “new plan”.<sup>528</sup>

<sup>524</sup> Cf. Dengg, *Deutschlands Austritt*, pp. 362-409.

<sup>525</sup> Cf. J.A. Tooze, *The wages of destruction: The making and breaking of the Nazi economy* (London, New York, 2006), pp. 90-91.

<sup>526</sup> MAE, 12 Jun 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>527</sup> This distribution of preference is also an explanatory factor addressed in Part III, “The Quest for New Markets”, which deals with the triangular economic relationship between Germany, Italy and the countries of Southeastern Europe.

<sup>528</sup> Sitzung des Handelspolitischen Ausschusses, 25 Aug 1934, PA-AA, R240.889/1.

Of course, the suspension of the payments agreement met with dismay in Italy, where the trade deficit was even higher than in Germany (see Table 3).<sup>529</sup> Rome had a certain understanding of Germany's monetary problems, and the Italian government assured Germany that it would do everything possible to stabilise the Reichsmark. For instance, it was implied that there might exist loopholes in the supervisory framework, allowing circumvention of the foreign exchange controls, which could be fixed. Nonetheless, Finance Minister Guido Jung considered the measures carried out by the "new plan" as unacceptable. Bonifacio Ciancarelli (MAE) added that it was not even in Germany's economic interests.<sup>530</sup> With its emphatic opposition, Italy clearly stood out from the other nine states whose payments agreements had been suspended without great uproar.<sup>531</sup> Certainly, for Italy the German market was of relatively greater importance, and as *la Stampa* put it, "with its negative trade balance it had to protect itself against the autarchy plan of Germany".<sup>532</sup>

Italy's protest and Germany's reaction to this revealed the similarity of their respective foreign economic policies, and, at the same time, how difficult a rapprochement would be, given the nationalistic approach underlying these policies. In his comment on Schacht and the "new plan", Alberto De Stefani wrote for the *Corriere della Sera* that this, "important man who manages the economic prospects of Germany" is doing nothing other than implementing the tactic, which "became popular everywhere in the world", and which is pursued by Italy under the name, "even trade balance tactic".<sup>533</sup> While there was agreement about the similarity of goals, strong disagreement persisted about the extent to which the goals were achieved. The AA argued that against the trend of Italy's overall balance of trade – which was constantly deteriorating – the deficit with Germany was actually getting significantly smaller.<sup>534</sup> By contrast, Eugenio Anzilotti (MCorp) presented to Ambassador von Hassell a very different estimation, by which in the first four months of 1934, compared with the same period of 1933, Italy's deficit had increased by Lire 30 million.<sup>535</sup> The question of which of these estimations is closer to the truth is nearly impossible to address for the historian. Already a contemporary expert like Adelchi Riccardi, the Italian commercial attaché in Berlin, admitted after he recognised the vast differences between German and Italian balances that he

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<sup>529</sup> MAE to MFin, MAgr, 30 Jun 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>530</sup> DB Rom to AA, 9 Jun 1934PA-AA, R105.913.

<sup>531</sup> AA, 12 Jun 1934, R105.913.

<sup>532</sup> Deutsches Nachrichtenbüro, 18 Sep 1934, PA-AA, R241.116.

<sup>533</sup> Deutsches Nachrichtenbüro, 18 Sep 1934, PA-AA, R241.116.

<sup>534</sup> AA, 12 Jun 1934, R105.913.

<sup>535</sup> DB Rom to AA, 28 Jun 1934, PA-AA, R117.783.

“was not able to identify which estimation was correct”.<sup>536</sup> In any case, both estimations were to some extent fabricated in order to show that the respective other was closer in achieving its goals, thereby legitimising countermeasures.

It was not only the goals of foreign economic policy, but also the means which increasingly resembled each other. Simultaneous the Italian opposition against the “new plan”, Berlin complained about the projected introduction of quotas in Italy.<sup>537</sup> Similar to Germany’s reaction, for instance, against the inflow of artificial fibres, Rome planned quotas to protect its market and national production. The public legitimisation accused especially the Japanese exporters of “dumping”. Therefore, the Italian administration stressed that the quotas did not officially aim at the imports from Germany,<sup>538</sup> but the veto against their introduction clearly shows that Berlin still considered Italian quotas as a serious threat. In the subsequent heated debate, which was also conducted via the press, the *Berliner Tageblatt* accused Italy of adopting the same measures it had previously emphatically combated. However, the accusation of incoherence was not all. Rather, the newspaper also denied Italy’s right to introduce quotas because even a protectionist Germany would still be Italy’s best customer, whereas this was not a given the other way around.<sup>539</sup>

Regardless of the German opposition to quotation, Italy certainly had to act, as the constantly falling gold reserves of the Banca d’Italia reached dangerous levels during the summer of 1934 (see Table 3). In an informal meeting between Posse (RWM), who was well aware of the increasing Italian deficit, and his counterpart at the MCorp, Alberto Asquini,<sup>540</sup> the latter did not hesitate to contemplate Italy’s “*faillite*”.<sup>541</sup> The possible target for countermeasures was easily identified in the trade deficit with Germany. Therefore, the MCorp sent to Berlin a delegation, which met for negotiations with officials from Schacht’s RWM on 12 to 14 July 1934. Against all hopes, Posse again rejected an even balance of trade. He argued that tourism alone, which was not included in the balance of trade, had created a flow of payments worth a total of RM 30 million, approximately half of Germany’s surplus in trade. Furthermore, the recent autarkic initiatives in Italy, such as, for example, the monopolization of synthetic dyes imports, were expected to put Germany’s exporters under pressure.

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<sup>536</sup> AI Berlino to MCorp, 28 May 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>537</sup> DB Rom to AA, 8 Jun 1934, PA-AA, R241.116.

<sup>538</sup> MCorp to MAE, 17 Aug 1934, ASMAE, AC, Italia, 1934, pos. 1-pg.

<sup>539</sup> AI Berlin to MAE, 25 May 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>540</sup> Alberto Asquini was under-secretary of state at the *Ministero delle Corporazioni* between 1932 and 1935.

<sup>541</sup> ‘Bericht über Aussprache Asquini-Posse’, 20 Apr 1934, PA-AA, R241.116.

Moreover, the meeting in Berlin, with its analysis of current commercial conflicts, provides insights into how the autarkic measures taken by each government to reduce the outflow of foreign exchange had torn businesses apart. In glass tubes, for instance, the company *Schott* in Jena complained that the Italian glass pipe industry profited from a system that obliged Italian customers of these products to buy from Italian companies only. In reply to this accusation, the Italian negotiators pointed out that a similar system existed in Germany for raw and processed sponges, and that the Italians had simply adapted it.<sup>542</sup> Even though this is rather a modest instance, it shows how differently transfers within the German-Italian relationship could be applied. This case, taken from the commercial sphere, did not support the rapprochement, countering research into the German-Italian relationship that has been carried out in several other fields, but rather legitimised confrontational action against the trading partner.

To find a solution to the problems brought by autarchy and the falling foreign exchange reserves, the Italian delegation suggested principally three options: further monopolization of domestic production and imports, harsh quotas or the introduction of a general clearing agreement, covering the entire German-Italian trade. All of them represent varieties of economic nationalism,<sup>543</sup> and the first two had clear limits in the German-Italian case. Posse described them in an earlier discussion as, “shocking examples for the extent of commercial confusion in Europe and the governments’ attempts to protect the domestic economy at any cost and without respect to established economic links”.<sup>544</sup> As it was the only option left, the Italian suggestion for a full-fledged clearing agreement seemed to persuade the German experts. Such an agreement offered the possibility of granting concessions to Italy without the liability of granting them to other trade partners as a consequence of the most-favoured nation clause. Finally, then, there had appeared on the scene a way out of the impasse to which the conflict of commercial goals had led Germany and Italy.

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<sup>542</sup> ‘Deutsch-Italienische Besprechungen vom 12.-14. Juli 1934’, PA-AA, R105.913.

<sup>543</sup> Cf. Nakano, ‘Theorizing Economic Nationalism’, pp. 211-229.

<sup>544</sup> ‘Bericht über Aussprache Asquini-Posse’, 20 Apr 1934, PA-AA, R241.116.

#### 4. The Clearing Agreement of 1934

With the idea to subject all trade and payments (for tourism, interest, etc.) to a bilateral clearing agreement, Germany and Italy took part in a global trend (see Chapter 1).<sup>545</sup> When in summer 1934 Eugenio Anzilotti, director general at the MCorp, suggested coming to terms with a clearing agreement, it was clearly an expression of a strategy that sought to secure a vital export market. The German market provided more than ever the biggest export prospects, and the previously mentioned conflicts show the degree to which the access to these markets was endangered by foreign exchange controls and other means of restricting imports. Branches that put pressure on the Italian authorities included agriculture, the automotive industry, artificial fibres, transportation and the state railway company.<sup>546</sup> For Germany, which had pushed successfully for a clearing with its major trade partners and creditors France and Switzerland,<sup>547</sup> an agreement with Italy apparently had only minor importance. In general, an open door was something that Germany's trade experts were ready to provide. A "policy of accommodation on a small scale" offered to Hans Posse the opportunity to, "push through the rejection of Italy's first priority", an even balance of trade, without grave political damage.<sup>548</sup> Accordingly, the German embassy replied to Anzilotti's proposal by stating that a clearing would be possible, but only if Italy was willing to compose trade and payments in the envisaged clearing agreement so that in the end a certain foreign exchange surplus ("*Devisenspitze*") was guaranteed for an unrestricted disposal of the *Reichsbank*.<sup>549</sup>

Certainly, Italy was rather reluctant to accept these terms, since it meant that the deficit in trade with Germany – combated ever since the outbreak of the world economic crisis – would be institutionalised in a legal contract. The MAE argued that, "Italy too is not a capitalist country which has huge amounts of savings to transfer abroad; therefore the theory that the debtor can only pay in goods, strongly supported by the Germans, applies also to us".<sup>550</sup> Anzilotti implied in a discussion with Ritter in Berlin that if Germany maintains this demand, it shall be answered with further quotas on imports from Germany.<sup>551</sup> Over the

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<sup>545</sup> Cf. James, *The end of globalization*, pp. 140-158.

<sup>546</sup> BdI Berlino to BdI, 21 Jul 1934, Archivio Storico Banca d'Italia, Segreteria Particolare, cart. 232.

<sup>547</sup> The clearings with France and Switzerland were carefully observed by Italian authorities. See, for instance, BdI Berlino to BdI, 4 Jul 1934, Archivio Storico Banca d'Italia, Segreteria Particolare, cart. 232.

<sup>548</sup> AA, 'Bericht über Aussprache Asquini-Posse', 20 Apr 1934, PA-AA, R241.116.

<sup>549</sup> DB Rom to AA, 17 Jul 1934, PA-AA, R117.327.

<sup>550</sup> MAE, 'Promemoria', 7 Sep 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>551</sup> Ritter (AA), 21 Jul 1934, PA-AA, R105.913.



following weeks, the Italian commercial experts insisted on the urgency of coming to an agreement. Rome offered a foreign exchange surplus of two per cent, but that was still far off from the 20 per cent Berlin demanded.<sup>552</sup> The AA reacted late and expressed a general overload with commercial negotiations, thereby lacking the capacity to send official representatives to Rome. However, the MAE responded quickly and sent a delegation to Berlin.<sup>553</sup> In addition, the MCorp considered the introduction of a compulsory clearing (“*Zwangsclearing*”) in order to reduce Italian assets which were blocked in Germany as a result of foreign exchange controls. The funds had grown with the rise of Italian exports in the harvest months of summer 1934. In fact, during this month the balance of trade had turned positive for Italy.

To Ritter, and the commercial department of the AA, the compulsory clearing was an effective threat. While Germany still faced a difficult foreign exchange situation, and the surplus in trade with Italy dwindled in summer 1934, the compulsory clearing bore the potential to make out of an established spring of foreign exchange yet another outflow. Furthermore, the plan foresaw to establish the Reichmark’s exchange rate on the basis of the Milan stock exchange price, and not on the basis of the more favourable price at the Berlin stock exchange.<sup>554</sup> Not least, Ritter feared that the Italian compulsory clearing would offer incentives to third countries (in particular France and Britain)<sup>555</sup> to adopt similar measures, thereby forcing Germany fiscally to its knees.<sup>556</sup>

Fears became reality when Italy introduced the compulsory clearing on 3 September 1934. Italian businesses importing from Germany were obliged to pay solely in Reichsmark in order to reduce the funds at the *Reichsbank*. Any other direct or indirect payment was prohibited.<sup>557</sup> The German newspaper *Deutsche Allgemeine Zeitung* wrote about this measure that it, “gave the involved German-Italian business circles cause for serious concern”. Clearly, the state of affairs did not satisfy the commercially interested public either in Germany or in Italy, where the entire press demanded a general revision of the German-Italian commercial relationship.<sup>558</sup> Under pressure from the public as well as the Italian government, the German trade political committee decided only one day after the introduction of the compulsory

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<sup>552</sup> BDI Berlino to BDI, 26 Aug 1934, Archivio Storico Banca d’Italia, Segreteria Particolare, cart. 231, fasc. 2.

<sup>553</sup> MAE, ‘Promemoria’, 31 Jul 1934, PA-AA, Rom-Quirinal 937x.

<sup>554</sup> Bilateralism in the form of clearing agreements led to a multitude of exchange rates (fixed in the clearing agreements) with wide fluctuations between internal and external prices.

<sup>555</sup> AI Berlino, 24 Jun 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>556</sup> AA to DB Rom, 5 Aug 1934, PA-AA, R241.116.

<sup>557</sup> Deutsches Nachrichtenbüro, 3 Sep 1934, PA-AA, R241.116.

<sup>558</sup> ‘Einseitige italienische Vorschläge’, *Deutsche Allgemeine Zeitung*, 19 Sep 1934.

clearing over the German requirements for a German-Italian clearing agreement. Firstly, and above all else, the committee demanded a foreign exchange surplus at the free disposal of the *Reichsbank* of nine to ten per cent (thereby cutting its previous demand by half). Furthermore, the exchange rate should not be calculated on Milan rates.<sup>559</sup> Finally, the deal combining Italian coal orders with German tourism should be calculated in an additional agreement.<sup>560</sup>

The latter demand was initially rejected by Italian Finance Minister Guido Jung as he expected other coal exporters, namely the United Kingdom and Poland, to ask for a similar treatment, which then could hardly be ignored. The Italian Ambassador Vittorio Cerruti, however, affirmed in a meeting with Ritter in Berlin that Mussolini would keep a secret “gentlemen agreement”<sup>561</sup> over coal orders and hinted that, if finally the desired clearing agreement were established, Italy would immediately place a coal order of two million tons. Nevertheless, the value of the coal exports was potentially getting smaller for Germany because Rome – against the emphatic opposition of Ritter – was no longer willing to accept the established practise of payments for coal, which used to be carried out in free foreign exchange up to 20 per cent.<sup>562</sup>

The Italian side led the final stage of negotiations confident of its current bargaining power, and it paid off. The agreement was signed on 26 September 1934. Finally, Italy could benefit from a full-fledged clearing, which subjected all payments deriving from the exchange of goods and services to mutual compensation, and which so far was refused consistently by Germany. The agreement also fulfilled some of the German demands. The settlement guaranteed a ten per cent foreign exchange surplus for the unrestricted disposal of the *Reichsbank*, and excluded the risk of third-party claims on the basis of the most-favoured-nation clause. However, it was agreed that the surplus first had to be used to liquidate the Italian balance at the *Reichsbank*. Moreover, the AA admitted that the institutionalised trade surplus, fixed at a rate of 4 : 5 in favour of Germany, was regrettably less than what Germany had been able to demand from Italy in 1932, when a German surplus of 3 : 2 had been established. Against the original German intention, the exchange rate was established taking into consideration Berlin and Milan rates.<sup>563</sup> Finally, to Italy’s benefit, two additional

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<sup>559</sup> The *Reichsbank* denied the Reichsmark exchange rate in Milan. It argued that due to Germany’s foreign exchange controls the Reichsmark was not traded frequently enough in Milan to represent realistic prices. See Reichsbank to BdI, 26 May 1934, Archivio Storico Banca d’Italia, Segreteria Particolare, cart. 231, fasc. 3.

<sup>560</sup> Handelspolitischer Ausschuss, 4 Sep 1934, PA-AA, R241.116.

<sup>561</sup> BdI Berlino to BdI, 26 Aug 1934, Archivio Storico Banca d’Italia, Segreteria Particolare, cart. 231, fasc. 2.

<sup>562</sup> Ritter (AA), 17 Sep 1934, PA-AA, R241.116.

<sup>563</sup> BdI Berlino to BdI, 13 Sep 1934, Archivio Storico Banca d’Italia, Segreteria Particolare, cart. 232.

agreements were concluded. The first agreement guaranteed the interest payments on the Dawes- and Young loans. The second additional agreement provided a more generous foreign exchange allocation to German tourists, which now could dispose of over RM 500, whereas previously it was only RM 200. On the surface, every indication was carefully avoided that Italy guaranteed in return further orders of coal.<sup>564</sup>

To the *Giornale d'Italia*, the new agreement closed an apparent gap in the institutional fabric of the German-Italian commercial relationship and ended a phase which had been started with the “new, restrictive commercial policy of Germany”: the “new plan”.<sup>565</sup> While it was only set up as a provisional arrangement, the clearing agreement of September 1934 clearly marked an institutional milestone of the German-Italian commercial relationship. Indeed, it provided the institutional basis for the commercial relationship between Germany and Italy till the defeat of the “Rome-Berlin Axis” in 1943.<sup>566</sup>

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<sup>564</sup> AA, ‘Aufzeichnung zum Abkommen vom 26 Sep 1934’, PA-AA, Rom-Quirinal 943B.

<sup>565</sup> ‘L’accordo italo-tedesco firmato a Berlino’, *Il Giornale d’Italia*, 29 Sep 1934.

<sup>566</sup> Mantelli, ‘Vom “bilateralen Handelsausgleich”’, p. 269.



## Chapter 4: Continuing Conflicts and New Collaboration

### *Introduction: From Hitler's Seizure of Power to the Commercial "Axis"*

Chapter 3 showed that with the erection of the Nazi regime in 1933, new opportunities for the German-Italian commercial relationship indeed arose. Berlin went beyond the concessions of preceding German governments described in Chapter 2. German tourists were allowed to spend more money in Italy, and the German market was prepared to accommodate previously unknown Italian products such as rice. Conversely, Italy shifted more of its coal imports to Germany. Furthermore, the fascist government refused to take advantage of the international boycott calls against German products after the atrocities against the Jewish community in Germany.

Nevertheless, in spite of the courtesies on the official level, the concessions were often undermined by the actual implementation of the agreements. While Italian officials complained about de facto suspensions of the support granted to tourism and artificial fibres exports, German authorities likewise criticised ongoing Italian protectionism for domestic industries. However, the most recurring conflict concerned the balance of trade. Rome strove unceasingly for a reduction of its trade deficit, and Berlin justified Germany's surplus in trade by recourse to the need to balance payment flows and its possession of coal.

The new foreign economic policy of the Nazi regime, the "new plan", even bore the potential to escalate the conflict beyond the achievements the fascist government had negotiated with the last governments of the Weimar republic. At first, the "new plan" gave advantage to the economic interest of Northern and Southeastern European countries, and even accepted that imports from Italy may be curtailed in order to protect the dire German foreign exchange reserves. Only with a vigorous defence of its imports to Germany, Italy was able to gain back its position among the top-priority trade partners of Germany. Rome demanded an extension of the 1932 payments agreement into a full-fledged clearing agreement.

But can the 1934 clearing agreement be considered a success, as was suggested by Tattara?<sup>567</sup> Already the run-up to its conclusion, with the Italian party driving a hard bargain, casts doubt on the notion that what Tattara calls a success is what all the contractual parties

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<sup>567</sup> Tattara, 'Power and Trade', pp. 457-500.

actually wanted in the first place. To address this question, further inquiry into the nature of the commercial relationship under clearing conditions is necessary.

Therefore, Chapter 4 not only looks at the performance and evolution of the commercial institutions created with the clearing agreement, it also includes experiences from businesses under clearing conditions. Of crucial importance is the devaluation of the Lira, which happened in 1936 and changed the rules of the game. Lastly, Chapter 4 evaluates the fundamental changes this development had on the composition of trade to come to an assessment of the economic foundations of the “Rome-Berlin Axis” in 1936.

### ***1. Evolving Institutions in the Commercial Sphere***

The perceptions surrounding the clearing agreement of 1934 were quite diverse. It received widespread assent in Italian government circles, which considered it a “solution that took Italian interests thoroughly into account”. However, the exact consequences were difficult to foresee. Especially Hjalmar Schacht’s “new plan” still caused mistrust in Italy.<sup>568</sup> The journal *Affari Esteri* articulated the risk by accusing the “new plan” (quite correctly) of effectively suspending the most-favoured-nation clause, and calling into question the benefits granted to Italy in previous agreements. For *Affari Esteri* “all this proves, also in this field, Germany’s unilateral and egoistic vision of international problems”.<sup>569</sup> The German government, nevertheless, was rather reluctant to see in the clearing agreement a path of long-term success. The *conditio sine qua non*, a surplus in trade, was guaranteed, but it was small and certainly tended to further decrease. Moreover, the exchange rate mechanism established by the clearing agreement was in favour of Italian interest.<sup>570</sup>

That a certain degree of uncertainty persisted concerning the effects of the clearing can be demonstrated by comparing the expected development as outlined by the trade experts with press opinions. Whereas the AA expected a decline of the trade volume, as had previously happened after the introduction of a clearing between France and Italy,<sup>571</sup> the *Giornale d’Italia* expected the opposite. Coming from the assumption that it was in Germany’s interest

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<sup>568</sup> DB Rom to AA, 12 Oct 1934, PA-AA, R117.328.

<sup>569</sup> ‘Italia e Germania. Clearing e Piano Schacht’, *Affari Esteri*, 9 Nov 1934.

<sup>570</sup> Boelcke, *Deutschland als Welthandelsmacht*, p. 55.

<sup>571</sup> AA, ‘Aufzeichnung zum Abkommen’, 26 Sep 1934, PA-AA, Rom-Quirinal 943B.

to export more, an overall trade expansion was proclaimed the logical consequence, as under the clearing scheme this was only possible by increasing imports from Italy.<sup>572</sup>

However, in its initial phase the clearing agreement, which subjected the entire flow of goods and payments to public control, created rather more huge administrative challenges than new opportunities for trade expansion. The MCorp complained, only one week after the clearing came into force, that the lack of organisation within the German control authorities virtually constituted an import ban on Italian products.<sup>573</sup> Moreover, it was hinted that the restrictions were not only a consequence of poor organisation. By referring to the more beneficial allocation of foreign exchange for imports from Yugoslavia, Hungary, Romania, Bulgaria and Greece, it was argued that Italian imports were disadvantaged.<sup>574</sup> In artificial fibres, a sector of all-too-well-known quarrels, the discrimination even had been affirmed by withdrawing already granted foreign exchange allocations.<sup>575</sup>

The Italian export institute tried to combat potential acts of discrimination by circumventing German public authorities and building direct ties with the natural allies of the Italian economy: the importers of Italian goods in Germany. In several cases, the latter had received hostile responses by German authorities when applying for foreign exchange assignments for trade with Italy. Then, the office for foreign exchange control (*Reichsstelle für Devisenbewirtschaftung*, RfD) reported that the Italian export institute had requested every company in Germany facing complications when applying for foreign exchange to report it directly to the Italian institute. Such a transnational constellation of interest was for the RfD “not to be tolerated”, and accordingly it attempted to cut those ties.<sup>576</sup>

Private business certainly suffered in both countries under the administrative difficulties. The German consulate in Milan “constantly received complaints about trade-restricting consequences of the agreement”. The formalities under clearing conditions represented for many small- and medium-sized companies – constituting the Italian economy to a large extent – too big a burden due to a lack of financial and personnel capacities. Consequently, many potential deals had fallen through. Moreover, complaints over payment delays became frequent. At a time of already-scarce credit the tedious procedure connecting

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<sup>572</sup> ‘L’accordo italo-tedesco firmato a Berlino’, *Il Giornale d’Italia*, 29 Sep 1934.

<sup>573</sup> AI Berlin to MCorp, 8 Oct 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>574</sup> Cammera di Commercio Monaco to MCorp, 25 Oct 1934, ASMAE, AC, Germania, 1934, pos. 16-28. This geographical distribution, favouring countries in Southeastern Europe over Italy, was an outcome of the “new plan” as described above (see Chapter 3).

<sup>575</sup> AI Berlin to AA, 8 Oct 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>576</sup> RfD to AA, 24 Nov 1934, PA-AA, R117.329. From the German document, it is not clear whether the, “export institute” refers to INE or Iscambi.

the importer, the two banks (*Reichsbank* and *Banca d'Italia*) and the creditor, which could take up to six weeks, at a high level of uncertainty, caused a huge financial risk for companies. In addition, any payment via the new clearing scheme involved relatively high fees, which were set at 0.6 per cent of the trade value, and which had to be added on top of the usual transaction costs. While these complaints only represent the most common submissions to the consulate, various other administrative difficulties encumbered private businesses.<sup>577</sup>

Of course, business clusters with trade relations to both countries emphatically complained about the clearing. For instance, the trade companies of Trieste complained that they were existentially threatened by the clearing agreement. As it did not cover payments for non-Italian goods, it rendered Trieste's established transit trade, delivering goods coming from Southeastern Europe and the Eastern Mediterranean to the German market, nearly impossible. Only the annual amount of Greek and Turkish tobacco commissioned in Trieste for the German market amounted to between Lire 40 and 60 million.<sup>578</sup> For the Italian government, the only solution left to this dilemma was to provide foreign exchange to the trading companies in order to enable them to buy the goods first, and then sell them to Germany. However, given the dire foreign exchange reserves of the Italian treasurer this option was impractical. For the German government too, the situation created problems as some of the long-established trading companies in Trieste were actually in German hands and now faced liquidation. Nevertheless, in spite of this negative impact, the government speculated that the positive aspects for the German economy would prevail, as weakening the port of Trieste would eventually benefit the ports of Germany's North-Western coastline (Hamburg and Bremen), which were competing for the very same trade connections. For the sake of the trade business of the German ports, therefore, the sacrifice of a few German companies in Trieste was a price Berlin was willing to pay.<sup>579</sup>

Another complaint made by the association of German iron and steel producers (*Verein Deutscher Eisen- und Stahl-Industrieller*, VDEStI) shows that the clearing conditions provided an opportunity to intensify autarkic policies at the expense of the trade partner's export. Deliveries to Italy often stalled at the border due to administrative formalities. One of the requirements, a signature of the importer at the border, was for the VDEStI a dangerous

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<sup>577</sup> GK Mailand to AA, 29 Nov 1934, PA-AA, R117.329; Werner, *Die deutschen Verrechnungsabkommen*, p. 50.

<sup>578</sup> MAE to MCorp, 5 Dec 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>579</sup> DK Triest, 24 Dec 1934, PA-AA, R117.329. The "battle of the ports", as the fierce competition between Germany's North-Western (Hamburg and Bremen) and Italy's North-Eastern ports (especially Trieste) was at the time referred to, will be systematically analysed in Part II.



means suitable to subordinate economic collaboration to autarchy. In this sector of strategic importance for the fascist regime, where efforts for an autarkic national production were strong,<sup>580</sup> the formal requirements enabled companies to delay the roll-out of German goods on the Italian market, thereby increasing costs for importing companies, and thus reducing the competitiveness of German goods in the long run. In this case, private businesses became accomplices of the fascist government, which by the commercial contract was legally bound to buy in Germany, but still searched for ways to circumvent these obligations in order to pursue its autarkic goals. The VDEStI suggested stopping this practice with retaliation, for instance, by blocking some of the trains with Italian perishable goods at the border.<sup>581</sup>

The hereby exemplified aspect of retaliation within the German-Italian economic relationship had an impact on the formulation of autarkic policies in Nazi Germany as in Fascist Italy, which is overseen by research with a focus on one national case only. The complicated implementation of the clearing agreements created sentiments in Italy that, in the end, it was the “new plan” and its limitations on Germany’s imports, which caused the problems.<sup>582</sup> Consequently, in a discussion between the Italian commercial attaché in Berlin, Adelchi Riccardi, and Eugenio Anzilotti (MCorp) the idea was elaborated that an approach equal to the “new plan” should be attempted by Italy’s foreign economic policy.<sup>583</sup> The result was a new scheme of Italian quotas. Introduced early in 1935, it officially aimed at a drastic reduction of imports to Italy, thereby engendering considerable opposition from Italy’s major trading partner: Germany.

The new quota scheme marked a turning point in Italy’s foreign economic policy. Up till this point Finance Minister Guido Jung had regularly blocked any attempt in this direction – which was advocated in particular by the MCorp – insisting instead on a strict deflation policy in order to protect the value of the lira. However, after Jung had lost the Duce’s trust in 1935 because of his resistance against proliferating state capitalism, and made way for his successor Paolo Thaon de Revel, a new consensus emerged that massive import restrictions could serve the same purpose.<sup>584</sup> The state of Italy’s foreign exchange reserves certainly demanded further action. Capital flight, a poor harvest, and the end of the holy year in 1934, which marked a sharp drop in tourism to Italy, all caused serious strains to the balance of

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<sup>580</sup> Cf. von Oswald, *Die deutsche Industrie*, pp.160-180.

<sup>581</sup> VDEStI to RWM, AA, 4 Feb 1935, PA-AA, R117.330.

<sup>582</sup> Polizia Politica Milano, 23 Feb 1935, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 177.

<sup>583</sup> AI Berlin to MCorp, 8 Oct 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>584</sup> DB Rom to AA, 1 Mar 1935, PA-AA, Rom-Quirinal 937x.

payments (see Table 3). As obtaining foreign exchange became the quintessential mission of Italy's economic policy, the bankers, and according to the judgement of the German embassy especially Alberto Beneduce,<sup>585</sup> head of the giant state holding IRI (1933-1939), as well as Vincenzo Azzolini, governor of the *Banca d'Italia* (1931-1944),<sup>586</sup> came now into power.<sup>587</sup>

Although the German embassy expected some legal action soon, the publication of the quota scheme on 18 February 1935, surrendering Italy's entire import to state control, came quite out of the blue. The reason for the abrupt implementation was that once rumours about import restrictions had reached Italy's business cycles, companies immediately tried to take advantage of the old legal framework and ordered relentlessly from abroad.<sup>588</sup> Thereby, the Italian government felt compelled to implement the scheme even earlier than initially planned. The German embassy called the new regulation, "profoundly rigorous [and] suitable to disturb significantly German-Italian commerce".<sup>589</sup> In its thoroughly negative assessment the embassy was seconded by many practitioners of Italy's export business. The *polizia politica* detected widespread displeasure not strictly with "the dispositions of the law, but with the complete intellectual insufficiency of the officials charged with the application".<sup>590</sup>

Complications were not long in coming. From the Swiss-Italian checkpoint at the border in Chiasso reports arrived that German goods were denied entrance to the Italian market. Moreover, the German participation in the Milan fair, according to its self-depiction "the most important Italian market for the development of commercial ties between Italy and Germany",<sup>591</sup> was called into question as German exhibition material was halted by the import restrictions. To defend its status as the major importer to Italy, the AA denounced a violation of the commercial contracts. Furthermore, it tried to influence regulation by recalling the German quotation of 1932 (while of course not mentioning the quotas of the "new plan"), which, in spite of regrettable collateral damage for the German economy, had taken Italian export interest into special consideration.<sup>592</sup>

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<sup>585</sup> Cf. M. Franzinelli and M. Magnani, *Beneduce: il finanziere di Mussolini*, (Milano, 2009).

<sup>586</sup> See Banca d'Italia, ed., 'I Governatori', available: < <http://www.bancaditalia.it/chi-siamo/storia/governatori-direttori-general/governatori/vincenzo-azzolini/index.html>> (retrieved 16 Jul 2015).

<sup>587</sup> DB Rom to AA, 20 Mar 1935, PA-AA, R117.331.

<sup>588</sup> DB Rom to AA, 28 Feb 1935, PA-AA, Rom-Quirinal 937x.

<sup>589</sup> DB Rom to AA, 19 Feb 1935, PA-AA, Rom-Quirinal 937x.

<sup>590</sup> Polizia Politica Roma, 2 Apr 1935, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 177. Polizia Politica Milano 19 Mar 1935, *ibid*.

<sup>591</sup> The Fiera di Milano used this self-depiction in an advertisement published in a German business journal, see *Weltwirtschaftliche Nachrichten*, 42, 13 (1933), p. 1477.

<sup>592</sup> AA to DB Rom, 5 Mar 1935, PA-AA, R240.708.

Rome tried to ease the discontent of its major trading partner, holding out the prospect of a special treatment for Germany. However, the not-yet-elaborated special treatment was supposed to be granted to every trading partner connected with Italy via a clearing mechanism.<sup>593</sup> For a real and exclusive enhancement of Germany's position, the Italian government insisted on a re-adjustment of the clearing agreement of 1934. It was deemed "unbearable" that at the time of its stipulation, "both parties had granted each other entirely free rein to restrict imports with quotas on foreign exchange allocations or goods". This constructional defect had allowed the German administration to manipulate foreign exchange allocations in order to hostilely freeze Italian assets deriving from exports of goods to Germany. Therefore, Rome suggested integrating fixed and guaranteed quotas of foreign exchange for imports from Italy into the legal framework, while Italy would in return offer a system of import licences (*Einfuhrscheinregelung*).<sup>594</sup>

What was articulated on the official level as a critique of the clearing agreement was in fact a condemnation of the "new plan", and the Italian quotas set up with exactly the latter as a template preconfigured a substantial change in the German-Italian trade. The Italian finance ministry plan ultimately aimed at an even balance of trade. The severe Italian quotas, reaching a 75 per cent reduction for certain products, did not touch equally on Italy's import. Half-finished and finished goods were more restricted than raw material imports, thereby providing opportunities for domestic industries heavily supported by the regime's autarkic policies.<sup>595</sup> In the event that Italian exports to a raw material supplier fell short of Italy's import demand, the plan foresaw loans granted by the supplier. In fact, the bankers now spearheading Italy's foreign economic policy had already put out their feelers on obtaining loans, for instance, from the US or France. Only as a second option – ideally to be avoided – a devaluation of the lira was considered.<sup>596</sup>

To German commercial interests the Italian quotas constituted a substantial risk. Throughout the economic crisis, German industry had desperately sought sales markets in a world of ever-growing protectionist barriers. According to the German consulate in Milan,

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<sup>593</sup> DB Rom to AA, 19 Feb 1935, PA-AA, Rom-Quirinal 937x.

<sup>594</sup> DB Rom to AA, 28 Feb 1935, PA-AA, Rom-Quirinal 937x.

<sup>595</sup> For instance, the Italian interior ministry rejected the export application of a German company for its food concentrate because it could be produced in Italy. See MInt to MAE, 19 Nov 1935, ASMAE, AC, Germania, 1935, pos. 6-24.

<sup>596</sup> It seems, however, that the plans by MFin did not attract unanimous enthusiasm at the MCorp and the MAE. See DB Rom to AA, 20 Mar 1935, PA-AA, R117.331.

while Germany's total export decreased,<sup>597</sup> exports to Italy rose from Lire 1006.06 million in 1933 to Lire 1211.46 million in 1934. They consisted of approximately 55 per cent half-finished and finished products, that is, a share even higher than the share of half-finished and finished products in Italy's total imports. The consulate described this export as, "no less vital for Germany for Germany" than the export of certain Italian products to Germany, which were impossible to shift somewhere else. Of course, Germany not only exported manufactured products, but also large amounts of coal. However, the consulate considered the export of raw materials of minor value because every exported machine would most likely stimulate further orders to maintain or extend use, whereas this was not the case with less-interconnected raw material exports. In a situation where most of the German companies operating in Italy were not far from running at a loss, the outlook on Italian quotas aiming particularly at German half-finished and finished products was grim, to say the least.<sup>598</sup> It seemed as though Italy had turned a commercial weapon adapted from Germany against its creator.

Both countries had introduced quotas consequent to a sense of massive burden associated with the balance of payments, and both had turned an emergency measure into a long-term commercial policy, albeit with different ends. Nazi Germany used the quotas of the "new plan" to shift the geographical distribution of its trade to regions like Southeastern Europe, which could provide natural resources needed by industry and domestic consumption, and moreover, offered the opportunity to combat the post-war order of Europe with the political leverage of economic concession.<sup>599</sup> Fascist Italy, instead, used the quotas to change the exports of its pre-eminent trading partner, Germany, in accordance with its commercial needs.<sup>600</sup> This pursuit was hard for Berlin to oppose, as it recently lost quite a bit of bargaining power vis-à-vis Italy. Early in 1935, the latter had achieved an even balance of trade in trade negotiations with France and the United Kingdom.<sup>601</sup> And while German foreign trade experts again declared an even balance of trade with Germany unacceptable,<sup>602</sup> they could not prevent the re-opening of the institutional arrangements of the German-Italian commercial relationship.

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<sup>597</sup> According to official statistics, Germany's exports went down from RM 4.9 billion in 1933 to RM 4.2 billion in 1934. See Statistisches Bundesamt, ed., *Bevölkerung und Wirtschaft 1872-1972* (Stuttgart 1972), p. 191.

<sup>598</sup> GK Mailand to AA, 2 Apr 1935, PA-AA, R240.697.

<sup>599</sup> Cf. Dengg, *Deutschlands Austritt*, pp. 144-146. For the role of Southeastern Europe in the German-Italian economic relationship see below.

<sup>600</sup> Polizia Politica Innsbruck, 26 Mar 1935, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 177.

<sup>601</sup> DB Rom to AA, 9 Mar 1935, PA-AA, R240.708.

<sup>602</sup> Handelspolitischer Ausschuß, 22 Mar 1935, PA-AA, R240.708.

Three weeks of drawn-out negotiations in Rome produced the “secret agreement for the regulation of the merchandise traffic”, signed on 16 April 1935. In general, both parties agreed to keep the volume of trade at its 1934 level. Carl Clodius, who became under the Nazi regime deputy head of the department for trading politics at the AA and can be considered the mastermind behind Germany’s “new economic order” of Europe during World War II,<sup>603</sup> considered it a success that the established ratio in trade (20 per cent trade surplus for Germany) was principally kept. Nevertheless, at the same time Germany was now legally obliged to grant 10 per cent of the thereby collected foreign exchange on tourism to Italy, 1.5 per cent on repayment of Italian receivables, and 2 per cent on interest and dividends. All in all, it came down to a meagre surplus of 6.5 per cent (or RM 16 million).<sup>604</sup> In addition, the Italian delegation could defend its system of import quotas against the German intention for a less-restricted access. A series of half-finished and finished products, typically imported from Germany, such as pipes or agricultural machines were restricted by up to 20 per cent.<sup>605</sup>

Taking the bilateral concessions together, the “secret agreement” appears to be a fair compromise, and perhaps this is why it turned out to be a success. German-Italian negotiators repeated the procedure semi-annually from then on, meeting to correct the flaws in the 1934 clearing agreement that had been discovered since the last meeting. In addition, Berlin and Rome both established permanent government committees to deal with their commercial relationship, and set up bilateral sub-committees of experts as, for instance, the “German-Italian Sub-Committee for the Examination of Customs Queries”. After many humble attempts since the outbreak of the world economic crisis, finally, an institutionalised framework for the co-ordination of commercial interest emerged. However, the government officials were well aware that the contractual vision of how the German-Italian trade should look like was not necessarily what was taking place at the level of actual business practise.

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<sup>603</sup> M. Mazower, ‘Hitler’s new order, 1939-45’, *Diplomacy & Statecraft*, 7, 1 (1996), pp. 29-53. Clodius’ expertise, especially with regard to the economies of Southeastern Europe, made him an expert of enormous strategic value. In fact, after 1945 he was employed by the Soviet Union in more-or-less the same function he had in Nazi Germany. Cf. ‘Restevertwertung. Der Name Clodius genügte’, *Der Spiegel*, 11 Sep 1948, available: <<http://www.spiegel.de/spiegel/print/d-44418808.html>> (retrieved 16 Jul 2015).

<sup>604</sup> Carl Clodius (AA), 18 Apr 1935, PA-AA, R30.243.

<sup>605</sup> DB Rom to all consulates, 18 Apr 1935, PA-AA, Rom-Quirinal 938.

## ***2. Industrial Co-operation***

In order to coherently assess the effects of the institutional changes to the German-Italian commercial relationship brought forward by the seminal clearing agreement of 1934, it is necessary to include the perspective of private business. Moreover, this perspective also provides the opportunity to detect contradictions between the different institutional steps towards the “commercial axis”.

The case of the German company *BEWAG*, for instance, shows that the aspect of the 1932 clearing agreement, supporting closer collaboration between private businesses was not necessarily taken up by the clearing agreement of 1934. As described above (see Chapter 2), the negotiations in 1932 had created a mixed commission of German and Italian producers, which was intended to encourage potential cross-border joint ventures. An example was the *BEWAG (Berliner Städtische Elektrizitätswerke AG)*, a Berlin-based energy company created in 1931 when the communal power plants were privatised. A group of Italian banks bought a chunk of the company’s shares worth a total of RM 6 million. While to the mayor of Berlin, it was not entirely clear who was behind the consortium, he supposed that the *Banca Commerciale Italiana* had taken the lead. Then, after the 1934 clearing agreement was implemented, this and similar ventures were not encouraged. Quite the opposite, the regulations provided the possibility that the German surplus on the clearing accounts could and should be used to buy up shares held by foreign companies. The mayor of Berlin expressed that the “city of Berlin is very keen to repatriate the Italian shares”. Moreover, he added that, “important national factors” would support the deal, and that the city treasurer had already discussed the details with Carl Clodius from the AA’s commercial department.<sup>606</sup> The example shows that the continuing development of the institutional arrangements regulating the flow of payments did not, as initially planned, lead to further entanglement of businesses but rather created the possibility for Germany to buy out Italian shareholders, and for Italy to balance its deficit with Germany.

An example from the Italian aluminium industry illustrates that also in a joint venture created on the Italian market, Italian shareholders made use of the clearing agreement in order to get rid of a no-longer-required German partner. By the late 1920s, *Montecatini*, the biggest Italian company in chemical production, planned to diversify into aluminium production.

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<sup>606</sup> Oberbürgermeister Berlin to AA, 18 Oct 1935, PA-AA, R117.132.

However, there was insufficient technical knowledge in Italy, and therefore *Montecatini* sought to co-operate with the German *Vereinigte Aluminium Werke* (VAW).<sup>607</sup> Both companies had close ties with their respective governments. The VAW was largely owned by the German state,<sup>608</sup> and *Montecatini's* president Guido Donegani became a strong supporter of the fascist regime.<sup>609</sup> The VAW produced at the time around 80 per cent of Germany's aluminium, and possessed with the "Haglund-process" a highly interesting patent for Italy because no coal was used for the production of aluminium.<sup>610</sup> Both companies founded the *Società dell'Aluminio* (SIDA), a water-powered aluminium factory in Mori, with the Italian *Montecatini* holding 60 per cent and the German VAW 40 per cent of the company's shares. Moreover, VAW constructed largely on its own account an aluminium oxide (the most important primary product) factory, the *Società Italiana Alluminia* (SIA). 92.5 per cent of the company's shares were held by VAW, and its only customer was SIDA.<sup>611</sup>

Problems arose because, according to VAW, not long after the launch of the production, SIDA, and ultimately its majority stockholder *Montecatini*, started to pressure SIA to lower the price for its aluminium oxide. SIDA argued that it was exposed to liquidity risk. By 1934 SIDA completely halted payments upon which VAW decided to transfer its payments to the German-Italian clearing agreement in order to safeguard liquidity. *Montecatini* objected to the use of the clearing, which to VAW exposed a plan to deliberately drive SIDA into insolvency in order to take over the company entirely at a bargain price.<sup>612</sup> In a series of law suits that followed, VAW first successfully took legal action against a confiscation arranged by *Montecatini*. Nevertheless, Italian courts judged the clearing agreement as inadequate to facilitate payments of the German-Italian joint venture, whereby insolvency became inevitable. Already while the auction of the insolvency estate was still under way, production in the SIDA and SIA factories was re-launched, under the control of *Montecatini*. For the

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<sup>607</sup> For a broader analysis of the transfer of technological knowledge between the German and the Italian chemical industries, cf. Petri, 'Zwischen Konkurrenz und Kooperation', pp. 253-290. *Montecatini* also co-operated with the German Metallgesellschaft in the international pyrite cartell, while at the same time using its influence to pressure Italian customers not to buy German products. See F. Amatori, 'Entrepreneurial Typologies', p. 161.

<sup>608</sup> The VAW is dealt with in C. Rauh, *Schweizer Aluminium für Hitlers Krieg?: Zur Geschichte der "Alusuisse" 1918-1950* (München, 2009).

<sup>609</sup> Cf. F.M. Snowden, *The fascist revolution in Tuscany, 1919-1922* (Cambridge [England], New York, 1989), pp. 125-126. At times, to the *polizia politica* Donegani seemed even too powerful and a threat, given the strategic importance of the sector he controlled. See Polizia Politica Roma, 17 Jun 1931, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 174.

<sup>610</sup> Cf. T.R. Haglund, 'The Haglund process for the electrothermic production of pure aluminium oxide', *Industrial & Engineering Chemistry*, 18, 1 (1926), pp. 67-68.

<sup>611</sup> VAW to Sarnow (RWM) in Rome, 12 Apr 1935, PA-AA, Rom-Quirinal 938.

<sup>612</sup> VAW to AA, 7 Nov 1934, PA-AA, R117.328.

outraged VAW it was clear that it was a “most unlawful” auction, and its venture in Fascist Italy ended with the statement that, “with all our connections with the global industry [we] had never a reason to consider such things possible, and even less to witness them being realised”.<sup>613</sup>

However, the evolving legal framework not only encumbered joint ventures of German-Italian companies, but also the relationship of separated companies, connected by trade and payments. Especially, the implementation of the “new plan”, which froze assets of Italian companies in Germany, stirred up protest. The case of the Italian slate dealing company *Arata* based in Chiavari (Genoa) shows that a German company willingly took advantage of the opportunities provided by the “new plan”, even if it meant destroying established relations with Italian partners. The *Arata* had significant claims deriving from commercial loans to German companies, which were blocked by the “new plan” in 1934. However, *Arata* was not only creditor, but also, by sentence of a Genoese court, debtor to the German company *Drettler*.<sup>614</sup> In this tripartite composition of debt, the Italian *Arata* suggested to compensate its far-bigger claims with its debt to the German company *Drettler*. However, the latter refused to consent to the deal, thereby giving rise to the suspicion that it acted out of “*amor patrio*”, and solidarity with the other German companies in debt by hiding behind the legal possibilities of the “new plan”. The discontent was even stronger because *Drettler* also refused to increase its slate orders from the *Arata* to wind down credit. Instead, it voluntarily shifted its huge demand for slate to France.<sup>615</sup> The case, therefore, shows how easily a German company could dismiss its established trade relationship with an Italian company if the legal framework set the right incentives. The obvious political attraction of both dictatorships failed in this case to have any impact.

The case of the *Arata* was not an isolated one, and many companies shared the discontent with the “new plan”. In Trieste, an entire group of companies and natural persons appointed the lawyer Paolo Reiser to step up the fight against the frozen assets in Germany. The overall amount of Italian money at stake was with reference to the Financial Times estimated at RM 138 million, a sum large enough to be considered by the MAE as “rilevantissima”. The companies in Trieste were particularly concerned as they feared that the blocked money could be spend against them, that is, on subsidies for German companies

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<sup>613</sup> VAW to DB Rom, 4 Apr 1935, PA-AA, Rom-Quirinal 944A.

<sup>614</sup> *Arata* to MAE, 27 Aug 1930, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>615</sup> Giacomo Di Giacomo (Camera di Deputati) to MAE, 18 Sep 1934, ASMAE, AC, Germania, 1934, pos. 16-28.



related to the ports of Hamburg and Bremen, Trieste's rivals for the commerce of Southeastern Europe.<sup>616</sup> The German government, so went a report of the MAE, replied to the accusations by denying any wrongdoing.<sup>617</sup> In view of this perceived ignorance and the large amount of private money at stake, it is no surprise that the Italian government decided to use the threat of import quotas against Germany.

The quota system, however, was a difficult commercial weapon to wield in an area of interconnected economies. In the case of car manufacturing, quotas hurt companies in both countries. In the 1930s the German market for cars was not yet as developed as the US market, but it was growing despite the maelstrom of the depression. Italian car manufactures participated in this promising market and increased exports, for instance, between 1933 and 1934, from 589 to 1,913 vehicles.<sup>618</sup> FIAT, moreover, established in 1929 the *KRAFTAG*, a subsidiary in Berlin, which built up a taxi fleet of more than 1,000 vehicles in the capital city, all provided by FIAT.<sup>619</sup> The German quotas on car imports, implemented equally out of domestic support for the car manufacturing industry in crisis<sup>620</sup> as of fiscal constraints, hit the lucrative Italian business hard, but not alone.<sup>621</sup> A large amount of the steel processed by the North Italian factories of FIAT was actually produced in Germany.<sup>622</sup> Therefore, the quotas directed against Italian car imports, caused not only inevitably frustration of the Italian manufactures and the government in need of export revenues, but in the form of reduced demand or retaliation also a blowback against German steel producing companies.

The Italian quotas of 1935, established as an act of revenge against the “new plan”, were by no means less harmful to established trade relations between private companies. The major interest group of Germany's trading companies, the *Reichsverband des Deutschen Groß-, Ein- und Ausfuhrhandels* (RDGEA), which represented approximately 50,000 companies in 1930,<sup>623</sup> complained to the RWM that the Italian quotas were for its members a

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<sup>616</sup> Paolo Reiser to MAE, 11 Apr 1934, ASMAE, AC, Germania, 1934, pos. 16-28. For an in-depth analysis of the competition between the ports of the North Sea and the Upper Adriatic see below, Chapter 8.

<sup>617</sup> MAE to MCorp, MFin, 11 Apr 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>618</sup> RWM to AA, 23 Aug 1935, PA-AA, R117.132.

<sup>619</sup> P. Haufschild, ‘Das Ende des Betrugs. Die Ahnen des Taxameters’, available: <<http://www.haufschild.de/taxi/ahnen.html>> (retrieved 16 Jul 2015).

<sup>620</sup> When in 1935 the *KRAFTAG* applied for public subsidies offered to the German car industry, the application was rejected because it belonged to the FIAT group, and therefore to a foreign co-operation. See RFin to AA, 22 Aug 1935, PA-AA, R117.132.

<sup>621</sup> AI Berlin to MCorp, 17 Dec 1934, ASMAE, AC, Germania, 1934, pos. 16-28.

<sup>622</sup> DB Rom to AA, 10 Jan 1935, PA-AA, R117.783. Likewise the Italian import quotas hampered FIAT's supply chain. See Polizia Politica Roma 27 Feb 1935, ACS, Ministero dell'Interno – Divisione Polizia Politica, busta 177.

<sup>623</sup> See Bundesverband Großhandel, Außenhandel, Dienstleistungen e.V., ‘Geschichte’, available:

“matter of deepest concern”. Theoretically, the Italian government had granted quotas of 100 per cent of the 1934 trade volume to German companies. However, those 100 per cent were termed as a “mirage, a misleading”, of which the German government was not aware. In fact, 100 per cent were only granted for orders of the same product and by the same Italian purchaser. Moreover, more complex products, consisting of multiple components, were object to multiple quotas. In the end companies had to make do with sometimes less than ten per cent of their 1934 deliveries, even though they felt entitled to export 100 per cent. Moreover, RDGEA members reassured them that they had enough potential orders from Italy to use up the entire 100 per cent.<sup>624</sup> The victims of this practise were in this case the German and Italian companies whose trade relations had been crippled.

As the previous examples of this chapter have shown, businesses were sometimes victims, and at other times free-loaders of each regime’s nationalist foreign economic policy. What could have caused this varying attitude? Evidence can be adduced from situations where several companies from different sectors interacted simultaneously with the other country. The 1936 voyage of German industrialists to Italy provides a telling case for this approach. The Italian embassy in Berlin outlined the need for such an exchange in that, “by consequence of the autarkic tendencies of each of our regimes, it is more and more difficult, as shown by the recent negotiations, to find goods to exchange”. In order to overcome this growing commercial distance, it was called necessary to “get to know each other better”.<sup>625</sup>

The initial idea was developed by Giovanni Bonmartini, an aviation and motorcycle entrepreneur, who represented this sector at the MCorp. The latter ministry involved the Italian federation of employers, *Confindustria*, in order to collect interest from various sectors of industry. *Confindustria*’s president Giuseppe Volpi, then, pulled his transnational strings and managed to win support of Hjalmar Schacht, who integrated German business cycles.<sup>626</sup> The list of German participants can be read as a cross-section of German industry interested in Fascist Italy. The delegation was headed by Ernst Trendelenburg who, after a successful career at the RWM and the League of Nations, had recently become a representative of *Reichsgruppe Industrie*,<sup>627</sup> the Nazi federation of employers and the *International Chamber of Commerce*.

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<<http://www.bga.de/geschichte.html>> (retrieved 16 Jul 2015).

<sup>624</sup> RDGEA to RWM, 4 Mar 1935, PA-AA, R240.708.

<sup>625</sup> AI Berlino to Bastianini, 1 Aug 1936, ASMAE, AC, Germania 1937, pos. 27-56.

<sup>626</sup> Confindustria to MAE, 16 Jul 1936, ASMAE, AC, Germania 1937, pos. 27-56.

<sup>627</sup> At its foundation in 1935, the *Reichsgruppe Industrie* incorporated the previously mentioned employers’

The dual function of Trendelenburg, to provide expertise on the interface between business and politics on the national as well as international level, parallels the twofold expertise of the delegates, who were representatives of big corporations, and at the same time important officials at Nazi Germany's cooperative institutions. Hans Berckemeyer, for instance, was chairman of the supervisory board of *Kokswerke und Chemische Fabriken Ag*, a pharmaceuticals and chemical company, as well as treasurer of the *Reichsgruppe Industrie*. The roughly 20 participants represented the sectors: machines, fibres production, wood and pulping industries, print, food and beverages (brewing), various segments of the chemical industry and electro-engineering.<sup>628</sup> Ludwig von Winterfeld, director of *Siemens-Schuckert-Werke AG*, deserves to be singled out as he was also the president of the German-Italian society (*Deutsch-Italienische Gesellschaft*).

The voyage turned out to be a manifesto of Italian industrial propaganda.<sup>629</sup> It started in picturesque Venice, which since the early 1920s had hosted *Marghera*, an industrial port specialised in chemicals. From there the industrialists travelled through the industrial triangle with longer stops in Milan and Turin, and eventually reached Rome. Visits to industrial sites were always rounded off with festive gatherings and many toasts to the productive achievements of fascism in order to convince Germany's business leaders about Fascist Italy's economic capacities (in fact, it was hinted the some doubts still persisted). The timing of the voyage in this regard was very important. According to Bonmartini, it was meant to take place while the League of Nations sanctions imposed on Italy after its invasion into Ethiopia were still in place.<sup>630</sup> "If there would be deficiencies in our industries, the official blame could be shifted on the sanctions", argued Bonmartini.<sup>631</sup>

While the actual visit is interesting for a study of the performance of fascist propaganda, for the intended assessment of business under foreign economic policy the voyage's programme provides more valuable insights. The list of factories to be visited was drafted by Bonmartini and other Italian industrialists. However, the draft failed to receive the consent of the fascist government. The *Commissario Generale per le Fabbricazioni di Guerra* (CoGeFaG), an armament institution that later evolved into the *Ministero della Produzione*

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federations *Reichsverband der Deutschen Industrie* and *Vereinigung Deutscher Arbeitgeberverbände*.

<sup>628</sup> For a detailed list of the participants see AA to DB Rom, 12 Oct 1936, PA-AA, Rom-Quirinal 963B.

<sup>629</sup> See for a glowing report, for instance, 'Impressioni degli industriali tedeschi', *Il Giornale d'Italia*, 29 Oct 1936.

<sup>630</sup> For Italy's invasion into Ethiopia, cf. G.B. Künzi, *Italien und der Abessinienkrieg 1935/36. Kolonialkrieg oder totaler Krieg?* (Paderborn, 2006).

<sup>631</sup> Bonmartini to MCorp, 20 May 1936, ASMAE, AC, Germania 1937, pos. 27-56.

*Bellica*, intervened with an approval of the Duce, and struck several companies and facilities from the programme. In Turin the visit of the biggest artificial fibres producer *Snia Viscosa* was prohibited as was in Pisa *Stabilimenti Piaggio*, an aviation company at the time. Naples, and the two companies *Romeo* (aviation) and *Silurificio* (steel) based there were deleted from the programme. Only the non-military part of the industrial port in Marghera was opened to the visitors.<sup>632</sup>

CoGeFaG's interventions indicate that the closer a sector was aligned to the strategic plans of the fascist regime, the more likely it was that the regime imposed a logic that differed from the one that usually organised the commercial relationship with its German counterpart.<sup>633</sup> With regard to the initial question, what could have caused companies to become either freeloaders or victims of the official foreign economic policy, it seems that the answer depends on whether or not the strategic orientation of the government could be aligned with the companies' plans for corporate development. The mistrust of government authorities with regard to its trading partner Germany reached from the artificial fibres sector, where it represented a fierce competitor on the world market, to the sectors with strategic, that is, military value. That this mistrust was mutual is supported by a legitimising note by the CoGeFaG; Italian companies „had never achieved, if it was not in the evident interest of the German company, to visit factories in Germany“.<sup>634</sup> Of course, these attitudes had a major impact on the composition of trade at the time of the official formulation of the “Rome-Berlin Axis”.

### ***3. Changing Trade and the Devaluation of the Lira in 1936***

The shared policy of autarchy changed the economic role Germany and Italy assigned to each other. This had become quite obvious by the time the voyage of German business representatives was planned, and Berlin demanded the inclusion of agricultural interest groups.<sup>635</sup> Back in 1932/33, when the mixed commission of producers was established, it was

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<sup>632</sup> CoGeFaG to MAE, 23 Jun 1936, ASMAE, AC, Germania 1937, pos. 27-56.

<sup>633</sup> Gerald D. Feldman provides, using the insurance sector, an example in which German and Italian companies worked well together as a consequence of the relatively low strategic importance of the sector. See Feldman, ‘Competition and Collaboration’, pp. 41-61, esp. 59. Di Quirico presents in detail how the strategic sectors (iron metallurgy, shipbuilding and the electric and chemical industries) received improved financing options by the Italian banks. See Di Quirico, *Building on borrowed bricks*, p. 18.

<sup>634</sup> CoGeFaG to MAE, 23 Jun 1936, ASMAE, AC, Germania 1937, pos. 27-56.

<sup>635</sup> Confindustria to MAE, 16 Jul 1936, ASMAE, AC, Germania 1937, pos. 27-56.

Rome that so strongly insisted on allowing agricultural interest to join the platform of primarily industrial reconciliation. That now Berlin lobbied in favour of an inclusion of agriculture shows the degree to which the fascist regime's pursuit of a German market capable of accommodating Italian agricultural products had come to fruition. Agricultural imports into Germany had grown so large that they represented just too-important an issue for Berlin to be left outside of the voyage of corporate Germany to Italy.

The trade numbers back this assessment.<sup>636</sup> Overall, both countries' respective significance in trade increased over the period of investigation, while still the German market was far more relevant for Italy than the other way around (see Table 4). According to the German statistics, imports from Italy grew, while Germany's total imports decreased in volume. They increased from 3.7 per cent (1933) to 4.5 per cent (1935) of Germany's total imports. The same development characterised exports to Italy, which increased from 4.6 per cent (1933) to 6.5 per cent (1935) of total exports. Regarding Italy, imports from Germany in relation to Italy's total imports first increased dramatically from 12.1 per cent (1933) to 16 per cent (1934), and then stayed on the same level in 1935 (Jan-Sep). Exports to Germany increased steadily from an already high 14.6 per cent (1933) of Italy's total exports to 15.8 per cent (1934) and 17 per cent (Jan-Sept 1935).<sup>637</sup>

However, the increasing mutual importance was not even the most striking feature of the development of trade. Rather, it was its composition. During the period of investigation, Germany turned from its ever-aspired-to position as a surplus exporter of finished goods into an involuntary supplier of a rapidly industrialising country. Between 1933 and 1935 alone, exports of raw materials and half-finished products doubled from RM 53,8 million to RM 101 million, with exports of coal almost tripling from RM 25.8 million (1933) to 69.4 million (1935). At the same time, export growth of finished products nearly stalled, and grew only from RM 169.4 (1933) million to RM 174.5 million (1935). Furthermore, growth within the segment of finished products was quite differing. The German industry was still welcomed to increase its export of machine tools, which were necessary to build up domestic productions, aspired to by the regime's autarkic policies. Accordingly imports in this segment increased from RM 5.6 million (1933) to RM 15.1 million (1935). In contrast, exports of textile

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<sup>636</sup> The following paragraphs rely on one statistical collection only, which was produced by the RWM (and was therefore the basis of calculation for one of the leading policy makers). See RWM to DB Rom, 17 Dec 1936, PA-AA, Rom-Quirinal 939a. Needless to say, differing estimations existed in Germany and, all the more so, in Italy.

<sup>637</sup> RWM to DB Rom, 'Übersicht 4, Prozentanteil des Deutschland-Italien-Handels am Gesamthandel', 17 Dec 1936, PA-AA, Rom-Quirinal 939a.

machines (RM 5.7 million to RM 3.8 million), dyes (RM 9.6 million to RM 8.1 million), and cotton products (RM 4.1 million to RM 2.7 million) dropped between 1933 and 1935, proving the sectoral success in driving back the former foreign supplier.<sup>638</sup> Italian advances appear also in League of Nations statistics, which show that while general industrial production in 1936 was still suffering from the great slump (1929 = 100, 1936 = 87.5), machinery production in 1936 had not only made up the losses, but was stronger than before the crisis (1929 = 100, 1936 = 115.3).<sup>639</sup>

With regard to the structural assessment of Italy's exports to Germany, the very beneficial situation granted by Berlin appears in stark relief. Despite the dire state of Germany's foreign exchange reserves, and the harsh import restrictions to remedy this deplorable state, Italian luxury products kept their high shares. The biggest position among Italian exports, southern fruits, alone accounted for RM 34.9 million in 1933 (21 per cent of Germany's imports from Italy), and was nearly unrestricted. In addition, exports of other products that did not satisfy any existential needs in Germany grew. Exports of silk and floss silk, for example, rose from RM 10.6 million (1933) to RM 23.2 million (1935). Another sharp rise was recorded for exports of hemp and similar fibres, from RM 9.2 million (1933) to RM 16.7 million (1935), which the German authorities had shifted from other countries (esp. the Soviet Union) to Italy as a matter of good will.<sup>640</sup> An equal preferential treatment was given to tourism, which provided in addition to Italy's export of goods a major source of revenue. From 1933 (Mar-Dec) when only 50,081 Germans had travelled to Italy spending RM 16 million, this source effervesced, and in 1935, 140,766 German tourists spent RM 38.1 million (a sum already topped after the first nine months of 1936).<sup>641</sup>

The Italian trade experts were well aware of the degree to which this trade structure appeased Italy, and how much the exported goods remained a luxury for its customer. The Italian embassy in Berlin considered those Italian products, which were "not necessary to the German economy", but "which however maximally requires Italian labour, and minimally requires foreign products" as the "economically most important" export goods. In order to safeguard this highly valuable export, it was even suggested that the Italian colonies and

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<sup>638</sup> RWM to DB Rom, 'Übersicht 11, Wichtigste Ausfuhr nach Italien', 17 Dec 1936, PA-AA, Rom-Quirinal 939a. When taking into consideration the development since 1929, the decrease of finished products among exports is even more striking. Cf. Höpfner, *Der deutsche Außenhandel*, p. 325.

<sup>639</sup> EC, 'Indices de la production industrielle dans certains pays', 26 Sep 1938, LON, R4402.

<sup>640</sup> RWM to DB Rom, 'Übersicht 15, Einfuhr Deutschlands aus Italien', RWM to DB Rom, 17 Dec 1936, PA-AA, Rom-Quirinal 939a.

<sup>641</sup> RWM to DB Rom, 'Übersicht 16 Reiseverkehr nach Italien', RWM to DB Rom, 17 Dec 1936, PA-AA, Rom-Quirinal 939a

especially Ethiopia, the recently integrated masterpiece of Italy's African empire, should be offered to Germany as an export market for its industrial output in order to prevent any German restriction of imports from Italy.<sup>642</sup>

Certainly, the huge concessions Germany made to its trading partner Italy were not primarily the result of economic logic, neither the one of liberal free trade nor autarchy. A policy of *quid pro quo*, which granted the expansionist fascist dictatorship greater economic leeway, provided a way for Germany to find an ally for its political fight against the post-war order of Europe. However, the political and the economic rapprochement did not necessarily happened at the same speed. An episode from May 1936 – the official proclamation of the “Rome-Berlin Axis” was only four months away – revealed that on the economic level the actors were not pushing for closer collaboration. On the contrary, the AA discussed how to proceed against Felice Guarneri, who was in charge of Italy's foreign exchange reserves, and who was accused of using his power to effectively suspend the painstakingly negotiated treaties over trade and payments.

The very technical dispute, related to machinery imports into Italy, ultimately came down to the accusation that Italy, and explicitly Guarneri, would circumvent the rules in order to water down Germany's contractually guaranteed trade surplus.<sup>643</sup> The accused did not even deny that the actual practise of trade differed from the development theoretically demanded by the treaties. But this result was to Guarneri the consequence of contracts “practically impossible to respect”.<sup>644</sup> The AA was perplexed by Guarneri's autonomous behaviour, and Karl Ritter, head of the commercial department, “had to conclude that Mussolini is not sufficiently aware of the stance of Guarneri and his subsidiary authorities”.<sup>645</sup> Consequently, the embassy in Rome was instructed to intervene directly with the Duce against Guarneri's behaviour in order to bring the economic collaboration up to the speed (at least officially) at which the political collaboration between the dictators was taking place. The diplomatic note was intended to express Berlin's irritation that, “after Germany throughout the last year had taken care of Italian needs in the institutionalisation of trade to a great extent, the Italian government is unwilling to keep the agreements”.<sup>646</sup>

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<sup>642</sup> AI Berlino to Sottosegretario di Stato per gli Scambi e le Valute, 11 Jul 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>643</sup> MAE to MFin, 14 May 1936, ASMAE, AC, Germania 1937, pos. 1-4.

<sup>644</sup> DB Rom to AA, 26 May 1936, PA-AA, Rom-Quirinal 938.

<sup>645</sup> AA (Ritter) to DB Rom, 3 Jun 1936, PA-AA, R105.644.

<sup>646</sup> AA to DB Rom, 28 May 1936, PA-AA, Rom-Quirinal 938.

While up to this point, the economic rapprochement that had taken place since 1929 reads largely like a series of German concessions to its trading partner Italy, a major turning point in autumn 1936 changed the course: the devaluation of the lira. Ever since the eruption of the economic crisis, the Italian currency was under pressure. The fascist government and the *Banca d'Italia* still ruled out devaluation in spring 1935, thus taking part of the “gold bloc” formed by France and other countries remaining on the gold standard. The preparation for the invasion into Ethiopia in summer 1935, however, changed not only Italy’s relationship with the two other major European colonial powers; it also required a different monetary policy in order to finance armament efforts. The decision was made to abandon the gold backing of the currency to “facilitate the utilisation of the reserves of the Banca d’Italia”,<sup>647</sup> but the already-looming measure to devalue was yet delayed. It only came in the aftermath of the devaluation of the franc,<sup>648</sup> which Paris decided on 25 September 1936, and which also sparked devaluations in Switzerland, the Netherlands, Latvia, and Greece.

Immediately after this decision with global ramifications was made, Hjalmar Schacht, economics minister and president of the *Reichsbank*, met with Ambassador Bernardo Attolico to discuss the consequences for the German-Italian commercial relationship. For Attolico, the devaluation, publicly underpinned by the US and the UK, represented a concerted action by the Western powers to “completely destroy the present system of quotas and foreign exchange controls”.<sup>649</sup> On the monetary level, thereby, a trench widened between Nazi Germany as the major supporter of this policy on the one side and the “democratic currencies”, as Attolico put it, on the other side. Schacht proclaimed publicly that he would defend the German approach against the French pressure “with claws and teeth”.<sup>650</sup> What he of course did not mention was that Nazi Germany also supported an act of speculation against the franc, adding decisively to the decision to devalue.<sup>651</sup> In this growing polarisation, the Italian ambassador was confident that Schacht would be mindful of the “evident solidarity [...] between Germany and Italy”.

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<sup>647</sup> MAE to various ministries, 1 Aug 1935, ASMAE, AC, Italia, 1935, pos. 28.

<sup>648</sup> DI Ginevra to MAE, 5 Oct 1936, ASMAE, AC, Italia, 1936, pos. 4-6.

<sup>649</sup> AI Berlino to MAE, 1 Oct 1936, ASMAE, AC, Germania, 1936, pos. 25-56.

<sup>650</sup> AI Berlino to MAE, MFin, 1 Oct 1936, ASMAE, AC, Germania, 1936, pos. 25-56. However, in the autumn of 1936, Schacht gradually shifted his standpoint in the direction of a devaluation of the Reichsmark. Thereby, he made himself extremely vulnerable, as the shift would not only mean international monetary reconciliation, but to his enemies within the Nazi government also a dangerous flirting with inflation. Even rumours about this shift were sufficient for his successor Walther Funk to denigrate Schacht. It was the beginning of the end of Schacht’s career in Nazi Germany. See E. Baltensperger, *Fünzig Jahre Deutsche Mark* (München, 1998), p. 72.

<sup>651</sup> See James, *The end of globalization*, pp. 190-194.



Nevertheless, asked by the German government about how Rome would react to the devaluation, Attolico only provided an opaque and evasive answer.<sup>652</sup>

In fact, Italy took the same road as the countries of the former gold bloc, and decided to devalue the lira on 5 October 1936, only five days after the conversation between Schacht and Attolico. The decision came very abruptly, and the German business community in Italy according to the Milan consulate was drawing an “alarmist scenario”. At worst, the introduction of an additional currency for foreign trade had been expected, but for a devaluation of 50 per cent in relation to the Reichsmark no precautions were adopted.<sup>653</sup> The German chamber of commerce in Italy added that the “prices in Italy represent due to the achievements of Italian competitors the absolute limits of profitability”. If goods imported from Germany would lose dramatically in competitiveness due to their higher prices, this would “necessarily mean the collapse of many import companies” and the loss of an entire market to domestic production or other countries with devalued currency.<sup>654</sup> In addition, it was feared that Italy’s export industry, boosted by a devalued lira, could undercut German products on third party markets.<sup>655</sup>

Yet, the alarmist scenarios depicted by German companies demonstrate a lack of understanding of the institutional setting of the German-Italian economic relationship, which provided a precious advantage to Germany.<sup>656</sup> According to the logic of the clearing agreement, a reduction of Germany’s exports to Italy would automatically provide the possibility for Berlin to equally restrict “luxury” imports from Italy, as essential for the Italian foreign economic policy as they were dispensable for a German economy preparing for war.<sup>657</sup> Therefore, it was in Italy’s own interest to prevent German products from losing competitiveness, because it would in the end also harm its own export in its most important

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<sup>652</sup> AI Berlino to MAE, MFin, 1 Oct 1936, ASMAE, AC, Germania, 1936, pos. 25-56.

<sup>653</sup> GK Mailand, 20 Oct 1936, PA-AA, Rom-Quirinal 963b.

<sup>654</sup> Deutsche Handelskammer für Italien to RWM, 10 Oct 1936, PA-AA, Rom-Quirinal 939a.

<sup>655</sup> AI Berlino to MAE, Sottosegretariato per gli Scambi e le Valute, 26 Oct 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>656</sup> That is not to say that in the few weeks between the devaluation and the re-regulation of the commercial relationship no harm was done. Reports reached the authorities that several Italian exporters had unjustifiably raised their prices. Cf. AI Berlino to MAE, Sottosegretariato per gli Scambi e le Valute, 26 Oct 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>657</sup> By 1936, with Nazi Germany getting involved in the Spanish civil war, armament production and war preparation was in full swing. See for Nazi Germany, R. J. Evans, *The Third Reich in Power 1933-1939* (London, 2008), pp. 612-712.

market.<sup>658</sup> Devaluation, which had served already many countries in gaining new strength to tackle the global economic crisis, was thus a blunt sword in Italy's hands.

It did, however, change the German-Italian economic relationship significantly, and added the last cornerstones to the fundamentals of the "economic axis". On 24 November 1936, the two permanent government committees came together in Rome to align the institutionalised commercial relationship with the new reality of a devalued lira. The negotiations with representatives from all relevant ministries, the central banks, railway and shipping administrations took more than two weeks and established with a dozen of contracts the new status quo.<sup>659</sup> The RWM emphasised the genuine desire of its Italian counterparts "to come to a friendly solution with us".<sup>660</sup> Although the Italian delegates denied their capacity to exercise an impact on prices of German products in Italy, they agreed to make a sacrifice. They declared their willingness to apply the Italian quota scheme in order to ascertain that the value of Germany's exports did not fall behind the level of 1934. Henceforth, no matter how much the prices of German products appreciated on the Italian market due to the devaluation of the lira, the government had to guarantee purchases of the more expensive products. If the Italian market ran out of capacity to accommodate a certain German good, it was agreed that the government committees would meet again in order to find other ways to compensate, for instance, by extending import quotas of other products. Only as a last resort would Berlin make use of its ability to restrict Italian imports. To cushion the short-term irritations of the devaluation, several transitional measures were adopted, all of which went towards smoothing out the earlier trade restricting measures as, for instance, the Italian quota scheme.<sup>661</sup>

That is not to say that the Italian delegation did not try to see what was in it for Italy's commercial interest. Indeed, several facilitations could be achieved for its agricultural exports; for instance, the German trade authorities in this segment now treated companies owned by Italian citizens as if they were owned by German citizens. In addition, the authorities promised to remove any hidden measure preventing a full exploitation of the quotas granted to Italian products. And yet, the documentation of the negotiations in 1936 reads more like a dismantling of the protective walls, which Rome had previously erected in order to take the

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<sup>658</sup> GK Mailand to AA, 15 Oct 1936, PA-AA, Rom-Quirinal 939a.

<sup>659</sup> The contractual framework of December 1936 went far beyond regulating the consequences of the devaluation. It also covered issues such as the integration of the Italian colonies into the bilateral economic relationship, the rivalries between both countries on the markets of Southeastern Europe, and the development of tourism. Thus, it serves as a major caesura for the other thesis chapters as well, and legitimises the period of investigation, which ends with the year 1936.

<sup>660</sup> RWM to all subordinate bodies, 18 Dec 1936, PA-AA, Rom-Quirinal 939a.

<sup>661</sup> MAE, 'Protocollo Confidenziale', 7 Dec 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

profits deriving from the beneficial development of trade. One suggestion of the German delegation was even perceived as a violation of Italy's sovereignty. In order to employ the Italian quotas in accordance with Germany's commercial interest, it was suggested to place them under the administration of the German chamber of commerce in Italy. However, for the Italian delegation any measure following the "principle that a foreign body administers in Italy" was out of the question.<sup>662</sup>

Moreover, in as much Italy had to open up to trade with Germany as a consequence of the devaluation and the logic of the clearing, it also further decreased its trade relations with other countries. While Germany benefited from volume quotas, which, as described, could be adjusted to prevent market difficulties, most of Italy's other trading partners (especially the countries supporting the League of Nations' sanctions) were only granted value quotas, which caused a sharp reduction of imports to Italy after the devaluation of the lira.<sup>663</sup> Tragically, the Franc-devaluation, which was orchestrated by the Western powers to encourage a global wave of monetary reconciliation, not only increased tensions between the blocs, but also welded even closer together the two economies of Nazi Germany and Fascist Italy.

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<sup>662</sup> MAE, 'Osservazioni sul progetto germanico del verbale delle decisioni dei due comitati governativi', 3 Dec 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>663</sup> RWM to all subordinate bodies, 18 Dec 1936, PA-AA, Rom-Quirinal 939a.

## Conclusion Part I: The Economic Foundations of the “Rome-Berlin Axis”

Table 4: German-Italian trade (percentage quotas on total trade and rank among trade partners) 1929-1936

	Germany (rank of Italy) <sup>(1)</sup>		Italy (rank of Germany) <sup>(2)</sup>	
	imports	exports	imports	exports
1929	3.3 (8)	4.5 (7)	14.2 (2)	11.7 (2)
1930	3.5 (7)	4.0 (9)	14.1 (1)	12.6 (1)
1931	4.0 (6)	3.6 (11)	14.5 (1)	10.6 (3)
1932	3.9 (6)	3.9 (10)	13.1 (2)	11.3 (1)
1933	3.9 (5)	4.7 (8)	14.8 (1)	11.9 (1)
1934	4.2 (4)	5.9 (4)	15.7 (1)	15.8 (1)
1935	4.5 (4)	6.5 (3)	18.3 (1)	16.2 (1)
1936	4.9 (3)	5.1 (4)	26.8 (1)	19.5 (1)

Sources: (1) R. Jasper, *Die regionalen Strukturwandlungen des Deutschen Außenhandels von 1880 bis 1938* (Ph.D. Diss., Freie Universität Berlin, 1996).

(2) G. Federico, *Il commercio estero Italiano: 1862-1950* (Roma, 2011).

In the period between the onset of the world economic crisis and the official proclamation of the “Rome-Berlin Axis” (25 October 1936), Germany’s and Italy’s mutual importance in trade increased in spite of the huge impact the great slump had on both economies (see Table 4). Can the clearing agreement leading to this development, therefore, be described as a “successful story”, as suggested by Tatarra? There is certainly much evidence that supports this argumentation: for instance, the increasing trade volumes after 1933 (see Table 5), analysed in this thesis and in Tatarra’s rather macro-economic analysis.<sup>664</sup> Nevertheless, the institutional approach to the study of commercial relations adopted in this thesis clearly demonstrates that the initially aspired-to development of trade as expressed in the negotiations leading to the institutional milestones, and the actual outcome were by no means the same.

<sup>664</sup> Tattara, ‘Power and Trade’, p. 497. Tattara admits the explanatory limitations of his approach: “to discuss it in terms of relative prices is, in fact, only a small part of the story, and not by any means the most important one”. See *ibid.*, p. 459. Equally positive in his general evaluation of the clearing is Bientinesi, *La politica commerciale italiana*, pp. 231-232.

That is, even though the trade volume increased, this is not what either Berlin or Rome desired in the first place, and therefore it is perhaps too bold to speak of a “success”.

*Table 5: Germany’s balance of trade with Italy 1929-1936 (million RM)*

	exports	imports	balance
1929	602	443	+159
1930	484	365	+119
1931	340	268	+72
1932	223	181	+42
1933	227	166	+61
1934	246	185	+61
1935	278	187	+91
Jan-Sep 1935	192	136	+56
Jan-Sep 1936	180	155	+25

Source: RWM to DB Rom, ‘Übersicht 5, Handelsverkehr Deutschlands mit Italien’, 17 Dec 1936, PA-AA, Rom-Quirinal 939a.

The series of institutional milestones, from the payments agreement of 1932, to the clearing agreement of 1934, and the commercial contract bundle of 1936, which eventually led to the “commercial axis” were all reactions to an undesired trade reality. These legally constituted a new reality, which was again counteracted by the actual development of trade. The regular adjustment of institutional arrangements proves that an ongoing conflict stood at the basis of the commercial relationship, a struggle that was not resolved with the rising trade volume. A key element in this conflict was a very similar foreign economic policy deriving from nationalistic thinking in response to shared economic constraints. In both countries, raw materials and foreign exchange were scarce, and in order to develop their economies and especially their industrial production in accordance with their self-proclaimed expansionist destiny, a surplus in trade was made top priority. Berlin felt entitled to a surplus in trade as Germany possessed coal, and benefited from the “influence effect”; that is, the breaking off of commercial relations was a greater threat for the Italian economy than for the German. However, in their bilateral relationship only one country could pursue this policy.

Nevertheless, it was clear to trade experts in both countries that Italian exports to Germany were as essential for the Italian treasury as they were a luxury to Germany because the exported goods like Mediterranean fruits and vegetables fulfilled no existential need. That the German government treated the country to such luxury, and indeed even extended it in spite of the serious economic turmoil, illustrates that it was not solely economic

considerations that led Berlin to do its share in increasing imports. In the end, it appears that the huge concessions in the commercial relationship were driven by political considerations. Mussolini's foreign policy intended to make Italy the "*peso determinante*"<sup>665</sup> between the evolving political blocks, and Berlin strived to use its economic power as a trump card. However, this does not mean that economic considerations played no role. Concessions were made, but at the same time Berlin strove to shape the institutional framework of bilateral commerce to prevent potential negative consequences on its industrial export and its trade surplus. These goals were given priority over an extension of trade volumes. Apparently, however, these hopes were not realised.

Rome, instead, succeeded in reducing the ever-contested trade surplus of Germany. Hence, substantial evidence supports the description of the development of trade as a success at least for Italy. The world economic crisis severed many established economic connections, and some of Italy's traditional sources of revenues (e.g. the remittances of emigrants in the USA) fell short. New opportunities had to be found. With the onset of the crisis, the fascist regime relied increasingly on agricultural export, but also on tourism,<sup>666</sup> and in both areas Germany provided the biggest opportunities. Accordingly, the initiatives in the institutional construction of the German-Italian commercial relationship were often launched by Rome. If the opposite party showed reluctance, the initiatives were supported by force, as in the case of Italy's compulsory clearing (*Zwangsclearing*), a measure which could have marked the end of Germany's commercial expansion in the 1930s if other countries had followed suit. Instead, Berlin capitulated, generously accommodating Italy's commercial interest, thereby increasing the trade volume.

However, this obvious success for Italy was only one side of the coin, as exports are only one part of trade. With regard to imports, initial aspirations and the actual outcome differed. Although in many fields domestic productions supported by the protectionist regime managed to replace German industrial exports, thus altering Italy's import composition to more raw materials (coal) and investment goods, the devaluation of the lira in 1936 changed the game. Whereas under the logic of free trade, devaluation could have increased the competitiveness of Italian industrial production vis-à-vis the German, the Italian government

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<sup>665</sup> H. James Burgwyn, *Italian foreign policy in the interwar period, 1918-1940* (Westport, Conn., 1997) p. 68. Steiner puts a stronger emphasis on economic and political dependencies that led Mussolini to manoeuvre between the blocks. Steiner, *The Lights that failed*, p. 244

<sup>666</sup> As a PhD candidate at the European University Institute in Florence, I should mention at this point that the first game of *Calcio Fiorentino* in the twentieth century, after it was forgotten for 200 years, took place in 1930 and became a major tourist attraction.

now, under the conditions of the clearing agreement, encouraged imports into Italy for the sake of its own export interest. This led to new reservations on the side of Italian business representatives facing industrial competition, which could draw on the legacy of Germany's "industrial domination" before World War I, and which persisted throughout the period of the "Rome-Berlin Axis".<sup>667</sup>

The experience of businesses as presented in this thesis substantiates the claim that the institutional construction of the German-Italian commercial relationship cannot be appraised as a mere success story. A regulatory framework that subjected the entire flow of goods and payments to state control created huge administrative burdens for small- and medium-sized companies and hampered trade opportunities. For big companies, which could afford the rising transaction costs, prospects depended on their stance towards the nationalist foreign economic policy by the regimes, which cut deeply into transnational production networks. The more closely an industrial sector was aligned with the strategic goals of the regimes the more likely it was that state intervention would change the rules that had previously constituted the relationships between businesses in both countries. This happened in sectors considered strategic because of their importance to armament production, such as iron and steel, chemicals and aviation, but, moreover, also in sectors where German and Italian products competed in the hunt for foreign exchange, as in artificial fibres and cars. Both sectors provide examples how import quotas, designed to safeguard the balance of payments and support domestic productions, destroyed a transnational, vertically-integrated production, and turned businesses in both countries into victims. Opportunities for better economic performance were clearly passed over.

Transnational solutions to transnational problems were attempted, albeit only half-heartedly. Co-ordination on the government level worked fairly well, with several mixed committees of government officials being set up to address various issues of trade under clearing conditions. However, attempts to spread the competencies of administrative bodies of business representation over the borders, as in the suggested administration of Italian import quotas by the German chamber of commerce in Italy, were categorically rejected. Even the mixed commission of producers, established by the governments specifically to deal with matters of shared economic interest, represented little more than lip service. It was designed with the French-German mixed commission of producers as a template. But whereas the

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<sup>667</sup> Rieder, *Deutsch-italienische Wirtschaftsbeziehungen*, p. 103.

German-French original, focusing largely on coal and steel, was due to the distribution of mineral resources considered economically viable even against deep political mistrust,<sup>668</sup> the German-Italian adaptation was in spite of the political rapprochement rendered impotent because the autarkic policies of both regimes favoured disentanglement over collaboration between industries.

With regard to this shared foreign economic policy approach, it has been argued that the Italian plans for autarchy prevailed over the German plans,<sup>669</sup> an assessment that this thesis calls into question. As has been shown, the devaluation of the lira in 1936 diminished Italian capacity to support domestic production over imports from Germany, thus putting the admittedly impressive successes of earlier years into perspective.<sup>670</sup> However, and far more importantly, the visions of autarchy did not envisage a closed economy on the territory of either Germany or Italy only. As the introductory quote from the *Vossische Zeitung* on the German-Italian economic relationship in 1932 made clear, “two countries alone are too weak to form a new economic area”.<sup>671</sup> In 1936, Mussolini declared publicly that, “no nation in the world can realise the ideal of economic autonomy on its own territory”.<sup>672</sup> Therefore, the varying concepts of autarchy almost always contemplated a larger European economic area, with either Berlin or Rome at the centre. However, in the shared periphery, constituted by the crisis-ridden countries in Southeastern Europe and the Eastern Mediterranean, the concepts of a *Großwirtschaftsraum* (larger economic area) or a *Spazio Vitale* (vital space) stood in competition. The following parts of my thesis will analyse the relationship between the German plans for a larger autarkic economic area and those of Fascist Italy, thus posing the question of whether the partial Italian success in the bilateral commercial relationship was only a pyrrhic victory.

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<sup>668</sup> It is noteworthy that an institution such as the French-German mixed commission, which preconfigured with its focus on coal and steel production the early steps of European integration after 1945, was also adapted by the two major right-wing regimes, though with a different scope and varying success.

<sup>669</sup> Tattara, ‘Power and Trade’, pp. 457-500.

<sup>670</sup> A contemporary estimation reckoned that Italy reduced the volume of its total imports between 1929 and the end of 1936 by 42 per cent. See Kestenholz, *Aussenhandel und Aussenhandelspolitik*, p. 66.

<sup>671</sup> ‘Der unerklärte Handelskrieg’, *Vossische Zeitung*, 4 Mar 1932.

<sup>672</sup> Quoted in Petri, *Von der Autarkie*, p. 123.



## **Part II: Ambivalent Co-Ordination at the International Stage 1929-1933**

### **Chapter 5: The International Implications of the German-Italian Economic Relationship**

#### *Introduction: The Big Picture*

The analysis of the commercial foundations of the Rome-Berlin Axis in Part I has raised one crucial question: why did German foreign economic policy grant such a favourable trading position to Italy, which evidently neither corresponded to the needs nor the capabilities of the German economy? An answer to this question requires a perspective which goes beyond the bilateral German-Italian economic relationship. The previous part has already touched on international implications where it was necessary to explain the institutional steps in the run-up to the “Rome-Berlin Axis” of 1936. However, the focus was always on the bilateral relationship. In contrast, Part II explicitly deals with the triangular relationship between the German, the Italian and the international economy between 1929 and 1933.

Chapter 5 conveys the big picture of the international dimension. It first looks at how international economic relations changed in the aftermath of the seminal crisis of 1929, and how Germany and Italy responded to the global trend of economic regionalism. In this regard, the thesis addresses the role of the USA as the economic superpower after World War I. For both countries the US was the most important trading partner in 1929, but no longer so by 1936. While transatlantic commercial ties diminished, a region on the European continent gained popularity for Germany’s and Italy’s foreign economic policies: Southeastern Europe. It was one of the regions worst affected by the global economic slump. Chapter 5 analyses the dire consequences of the Great Depression, and contrasts this development with the renewed economic (and political) interest Germany and Italy showed for the region. Moreover, it adds the suspicious reactions by the victorious powers of World War I. Lastly, Chapter 5 introduces the international platform that became a central reference point for the discussions on economic change in Southeastern Europe: the economic and financial organisations of the League of Nations.

## *1. Towards Regionalism*

With the world economic crisis of the 1930s, attempts to revive the gold standard came to a sudden end. The pre-World War I global monetary system had facilitated the first wave of modern globalisation (roughly 1870-1914).<sup>673</sup> In reaction to the German and Austrian banking crisis during the summer of 1931, the governments in both countries introduced foreign exchange controls to avoid capital flight. By this means, they effectively left the gold standard, which consequently led to bank runs and currency crises in other countries. In September 1931, the British government made the decision to suspend the gold standard, with another 24 countries immediately following its example.<sup>674</sup>

At this point in the argument it is not necessary to delve into each country's deliberations on whether or not to leave the gold standard. To understand the course of the global economic crisis, however, it is important to note that with the collapse of the gold standard the conviction that the world's economic problems should be solved with an internationally co-ordinated action lost ground. In response, countries concerned with the recovery of their national economies imposed rather diverse protective measures to tackle the crisis. This development shattered the once-integrated world economy into a set of "areas", which were characterised by the same monetary and commercial system. A few countries in Europe, with France taking the lead, stuck to the gold standard and formed the "gold bloc". Britain, its colonies/dominions and other countries dependent on commercial ties with the British market, formed the "Sterling area". Its members co-ordinated their foreign exchange controls, used the sterling as currency or pegged their own currency to the British pound.

Subsequently, international trade diminished because trade was increasingly carried out within these areas. Colonial powers fostered trade within their empire to circumvent the new constraints that weighed heavily on commerce between different exchange control regimes. Some regions, like the newly founded states in the Eastern Mediterranean that were mandated by the League of Nations to Britain and France, were increasingly merged into an imperial commercial system.<sup>675</sup> Germany, with a legacy of pre-war economic engagement in

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<sup>673</sup> Cf. World Bank, ed., *Globalization, Growth, and Poverty* (Washington DC, 2002), pp. 24-26; C. Torp, 'Weltwirtschaft vor dem Weltkrieg. Die erste Welle ökonomischer Globalisierung vor 1914', *Historische Zeitschrift*, 279 (2004), pp. 561-609.

<sup>674</sup> Cf. Feinstein, Temin and Toniolo, *The world economy*, p. 103.

<sup>675</sup> Cf. S. Pedersen, 'The Meaning of the Mandates System. An Argument', *Geschichte und Gesellschaft*, 32 (2006), pp. 560-582.

the Eastern Mediterranean (with the railway-project *Bagdadbahn* an outstanding example), and Italy, with a quite-recent economic interest deriving from claims on the Mediterranean shore, faced new borders that determined more than ever the flow of trade. Therefore, they were bound to advance their economic interest at the League of Nations, which oversaw the mandate system.

Globally speaking, the trend of the international economy disintegrating into distinct blocs was not limited to Europe and its “periphery”. Other trading areas emerged with the US, Japan or the Soviet Union as their “centres”. To the supporters of global economic co-ordination like the economic intelligence service of the League of Nations, it appeared that the idea of international free trade was replaced by the idea of autarkic economic areas – a development that was considered one of the biggest threats to the recovery of the international economy.<sup>676</sup>

Germany and Italy represent special cases in this global trend toward regionalism. In both countries, the idea of international free trade had been heftily criticised by nationalistic counter-movements before the onset of the crisis, and was consequently buried when its desatrous effects seemed to prove the daunting accusers right. Economics Minister Walther Funk proclaimed proudly at the height of Nazi-domination over Europe that Italy and Germany had been the first countries to “protect” the world from international finance.<sup>677</sup>

Germany did not become a member of one of the already-mentioned currency and trade areas. It refused to follow the example of the pound or the dollar because devaluation would have increased the burden of its relatively high foreign debt. In addition, this measure could have been perceived by foreign countries as a signal of German economic weakness.<sup>678</sup> Instead, the government opted for harsh foreign exchange controls in order to protect the import-dependent economy against a further decrease of the already-low foreign exchange reserves. Furthermore, foreign payments were subjected to administrative control as importers were only granted a limited amount of foreign exchange to pay for their orders, and exporters had to surrender their revenues to the central bank. In accordance with this administrative takeover of international payments, the regulation of trade became a matter of political and

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<sup>676</sup> Quoted in Petri, *Von der Autarkie*, p. 38.

<sup>677</sup> W. Funk, *Das wirtschaftliche Gesicht des neuen Europas* (Berlin 1942), p. 10. For the underlying ideological foundations of the German-Italian economic relationship, see the prologue to this thesis.

<sup>678</sup> Cf. Boelcke, *Deutschland als Welthandelsmacht*, p. 17.

diplomatic negotiations, which subsequently established a system of bilateral agreements: Germany's Reichsmark Bloc.<sup>679</sup>

Italy in this regard stayed between the blocs, as it co-operated with the remaining supporters of the gold standard, but soon adopted a trade policy quite similar to Germany. Its initial adherence to gold seems at first sight rather incomprehensible given that the country, with its low foreign exchange reserves, carried a burden similar to that of Germany.<sup>680</sup> Explanatory factors for this decision include the vital economic ties with other countries remaining on gold, the still-high share of agriculture in the national economy,<sup>681</sup> hopes to reap after the crisis the benefits of adherence in the form of better credit abroad,<sup>682</sup> and Mussolini's policy of economic nationalism.<sup>683</sup> In the early 1930s, the Duce considered stability and the international value of the lira a source of national pride, and he prioritised stability over more realistic considerations that could have led him to the British approach of devaluation in order to gain international competitiveness.<sup>684</sup> Instead, Mussolini decreed harsh cuts in wages and salaries. As this policy showed only limited effect between 1929 and 1932, with wages thereafter again on the rise, Italy moved to a policy of foreign exchange controls and bilateral trading agreements, that is, towards the German approach.<sup>685</sup>

While Italy's policy approach to the international economy increasingly resembled that of Germany, at the same time both countries' ties with the political, military and economic superpower after World War I, the US, diminished. In order to better understand their vision of foreign economic entanglement, it is necessary to look from which point they departed. In the period under investigation (1928-1937), Italy's imports from the US fell from 17.6 per cent to 11.1 per cent of its total imports, and Italian exports to the US dropped from 10.7 per cent to 7.5 per cent of total exports.<sup>686</sup> As was shown in the previous chapter, Germany increased over the same period its role both as a supplier and as a customer of the Italian economy. Similarly, between 1930 and 1938, Germany's imports from the US fell from 12.6

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<sup>679</sup> Cf. Feinstein, Temin and Toniolo, *The world economy*, pp. 150-152.

<sup>680</sup> The countries of the gold standard were confronted with a run on their foreign exchange. See H. James, *Rambouillet, 15. November 1975. Die Globalisierung der Wirtschaft* (München, 1997), p. 38.

<sup>681</sup> For the similar case of Poland see N. Wolf, 'Should I stay or Should I Go? Understanding Poland's Adherence to Gold, 1928-1936', *Historical Social Research*, 32, 4 (2007), pp. 351-368.

<sup>682</sup> So the judgment of the US Ambassador in Rome. See US Embassy Rome to FDR and Secretary of State, 22 Oct 1933, FDR Archives, President's Secretary's File 41.

<sup>683</sup> To consider the national currency as a source of national pride, and its stabilisation a national duty is a typical element of economic nationalism. See Nakano, 'Theorizing Economic Nationalism', p. 226.

<sup>684</sup> Cf. Toniolo, *L'economia*, p. 178.

<sup>685</sup> Feinstein, Temin and Toniolo, *The world economy*, pp. 154-155.

<sup>686</sup> Federico, *Il commercio estero*, pp. 126-131.

per cent to 7.4 per cent of its total imports. Its exports to the US diminished from 5.7 per cent to 2.8 per cent of total exports.<sup>687</sup>

The US government rose up against this trend. It blamed publicly protective measures against its exports, and identified the recent fascination for autarchy in Germany and Italy as preparing the ideological ground for economic disintegration. The US ambassador in Rome, for example, reported that with the advances of the heavily artificial fibres-production, “Italy can reduce its cotton purchases from the United States by 50 per cent within two years”. Even more threatening, the Italian artificial fibres industry had received “inquiries from Czechoslovakia, Poland, Sweden, Spain, Belgium, Holland and Switzerland for the establishment of plants in those countries”. The result would be an “enormous inroad upon the cotton export trade of the United States”.<sup>688</sup>

The accusation of protectionism was certainly not far from reality. The German embassy in Rome reported in 1929 that the Italian automobile club had launched a campaign against foreign cars on the Italian market. The campaign was supported with articles in several big newspapers, and the wording as well as the cited cases of the different articles resembled each other to an extent that the embassy suspected the Italian government of being behind the campaign. While these attacks, which foresaw a public list to name, shame and fame owners of foreign cars, were aimed at German exports too, the campaign targeted mainly cars produced in the US.<sup>689</sup>

In Germany, the protectionist tendencies against US exports reached a new level with the implementation of Hjalmar Schacht’s “new plan” in 1934, which first led Germany to withdraw from the 1923 trade agreement with the US. Secondly, the “new plan” prompted Cordell Hull, secretary of state and one of the main proponents of liberal free trade, to refuse most-favoured-nation status to Germany in an agreement based on Germany’s new foreign economic policy.<sup>690</sup> Eventually, trade languished, and discrimination against US trade became a perennial accusation of American politicians.

For the US, there was certainly more at stake than a few percentage points in trade. US corporations had invested heavily in the German economy throughout the 1920s, with ramifications that went beyond the German market. The *Banca d’Italia*, Italy’s central bank,

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<sup>687</sup> J. Sensch, ‘histat-Datenkompilation online: Der Außenhandel Deutschlands. Basisdaten für den Zeitraum 1830 bis 2000’, *GESIS, Deutschland ZA8358 Datenfile Version 1.0.0* (1949-2007 [2009]).

<sup>688</sup> US Embassy Rome to FDR and Secretary of State, 22 Oct 1933, FDR Archives, President’s Secretary’s File 41.

<sup>689</sup> DB Rom to AA, 24 Jun 1929, PA-AA, R240.696.

<sup>690</sup> Steiner, *The triumph of the dark*, p. 97.

closely monitored the different levels of US investment in Germany (direct investment, sales companies and commercial representatives) because it mattered “not only for this country, but for the entire European continent”. In this report, issued in 1930 by its Berlin branch, the *Banca d’Italia* anxiously declared that US corporate involvement “aims at controlling the local industry and consequently destroying it in the exclusive interest of the American industry”.<sup>691</sup>

The exaggerated statement of the *Banca d’Italia* still shows that in the midst of the economic turmoil of the Great Depression, the US also made use of protectionism. In fact, several voices in Germany and Italy tried to legitimise protective measures in their country by referring to the Smoot-Hawley Tariff Act of 1930, and set out to justly compensate the damage that increasing US tariffs on more than 20,000 imported goods had caused to European exporters. The Italian newspaper *Il Messaggero*, for example, claimed “Italian machines for Italian soil”, pronouncing a halt on the import of agricultural machines, which was perceived by the German embassy as a direct reaction to the US tariff act.<sup>692</sup>

Certainly, US foreign economic policy in the Great Depression found itself in a dilemma. On the one hand, the government could stick with Hull’s approach of free trade and open markets, whereby it ran the risk of exclusion from markets with protective walls and bilateral commercial treaties superseding the MFN clause. On the other hand, the US could discreetly adapt the same measures to keep its vital markets open for its production surpluses. This strategy, however, could have undermined the credibility of the US in the global debate over the ideal constitution of the international economy.<sup>693</sup> A solution to this dilemma was not in sight.

Perhaps the dilemma was one reason that no open trade war broke out between Germany as well as Italy on the one side and the US on the other side. Although both sides proclaimed opposition to each other’s approaches, they equally shared a considerable interest in their mutual economic relationship. The US remained a vital supplier of many goods that had not been replaced by the new surrogate products developed with strong backing by autarkic policies. In addition to its role as an exporter, the US and especially New York still played a role as a financial centre, albeit at a decreasing level. Throughout the 1920s it had allowed Italian banking, and subsequently Italian business, to expand in many regions

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<sup>691</sup> BdI Berlino to BdI, 24 Sep 1930, Archivio Storico Banca d’Italia, Fondo Studi, cart. 29.

<sup>692</sup> DB Rom to AA, 7 Jul 1930, PA-AA, R240.697.

<sup>693</sup> Cf. D. Junker, *Der unteilbare Weltmarkt: Das ökonomische Interesse in der Aussenpolitik der USA 1933-1941* (Stuttgart, 1975), p. 111.

worldwide.<sup>694</sup> As Di Quirico has pointed out, “the history of the Italian economic expansion abroad was above all the history of the expansion abroad of the large Italian banks and of the industrial and commercial activities that they undertook or supported”.<sup>695</sup> Even after the war in Ethiopia, which at first sight had ruined Italy’s international reputation, the MAE and the MFin acknowledged a plan that would maximize benefits from the recent bull market for Italian securities in New York after the end of the war.<sup>696</sup>

North of the Alps, German government officials sent out messages to the American public asking for confidence in spite of the current irritations. Hjalmar Schacht, for instance, gave an interview to the *Evening Standard* in 1933, in which he declared that Germany would remain a “committed supporter of the gold standard”, and that he would oppose a closed “European gold bloc” that excluded the US.<sup>697</sup> To the board of economic warfare, his visit “was nothing but a propaganda campaign designed to create sympathy for the Nazi regime in American business circles”.<sup>698</sup> On the other side of the Atlantic, big US corporations with overseas investments persistently articulated a genuine interest in maintaining a good relationship in spite of the growing political and economic tensions in order to prevent further damage to their property.<sup>699</sup>

Nevertheless, even as the ideological differences failed to lead to a complete halt in the economic relationships between the US on the one side and Germany as well as Italy on the other, tensions reached a degree of open discontent on third-party markets. As has been shown in Part I, Germany and Italy were at the forefront of tackling the widespread severe foreign-exchange situation with bilateral barter agreements. By early 1937, more than 170 clearing agreements had been signed worldwide, with only a few trading countries departing from the trend and one especially noteworthy exception.<sup>700</sup> The US had not joined the trend, and defended the liberal idea of free and open trade against clearing agreements. The economic battle between the US and the pioneers of bilateralism broke out in Latin America<sup>701</sup> as well

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<sup>694</sup> Cf. G.G. Migone, *Gli Stati Uniti e il fascismo: alle origini dell’egemonia americana in Italia* (Milano, 1980); M. Behnen, *Die USA und Italien 1921-1933* (Münster, 1998).

<sup>695</sup> Di Quirico, *Building on borrowed bricks*, pp. 72, 89-108.

<sup>696</sup> MFin to MAE, 18 Apr 1936, ASMAE, AC, Italia, 1936, pos. 28.

<sup>697</sup> BdI Berlino to BdI, 7 Jul 1933, Archivio Storico Banca d’Italia, Segretaria Particolare, cart. 230.

<sup>698</sup> Board of Economic Warfare, 14 Jan 1943, FDR Archives, Wallace 63.

<sup>699</sup> Cf. Edwin Black, *IBM and the Holocaust: The Strategic Alliance between Nazi Germany and America’s Most Powerful Corporation* (Washington, DC, 2009).

<sup>700</sup> G.W.J. Bruins, ‘Clearing. Einige allgemeine Bemerkungen über Clearingverträge und die in den Niederlanden hiermit gemachten Erfahrungen’, *Berliner Börsenzeitung*, 24 Apr 1937.

<sup>701</sup> For a discussion of why Latin America has not been included to this thesis, see above, introduction section 3.

as Asia,<sup>702</sup> but it was in one region where it especially clashed with the economic and political expansionist drive of Germany and Italy: Southeastern Europe.

Much of the money invested in the countries established in the aftermath of World War I came from the United States. According to German estimations from 1932, in Austria, Czechoslovakia and Yugoslavia, the US was the single largest creditor (US investments in AT: RM 412 million; CS: RM 232 million; YU: RM 180 million). In Bulgaria and Hungary, British investments slightly topped the American investments (US investments in BG: RM 53 million; HU: RM 350 million) and in Romania France's investments (US investments: RM 83 million).<sup>703</sup> Therefore, it is hardly surprising that the grave economic difficulties of the region, and the subsequent initiatives of Germany and Italy, caused mistrust. When in 1931, the Hungarian government, under heavy financial pressure, declared that it would stop payments for all its long-term government bonds except for the League of Nations loan, a group of American banks intervened at the Department of State (DOS) and the League of Nations. The banks flatly opposed the discriminatory procedure, and in case of its acceptance they demanded at least that the League assume financial supervision of the recalcitrant debtor.<sup>704</sup>

This example highlights the US involvement in the financial and economic activities of the League, which is quite noteworthy given that it never joined the international organisation as a full member.<sup>705</sup> Especially concerned was the DOS with the discussion of clearing and compensation agreements which were "vitaly affecting American trade and financial interests, also because they seem to be seriously modifying both the course of trade throughout the world and the method of conducting trade and arranging payments therefore".<sup>706</sup> With the US involvement, the League of Nations gained in the 1930s a pivotal role as a forum for the competing ideas on how to find ways out of the world economic crisis. When hereafter the thesis discusses the German and Italian initiatives for a more bilateral approach to foreign economic relations, it is important to keep in mind that the initiatives were developed with an eye on the US and their ongoing resistance to German and Italian bilateralism. Even for the analysis of the actual expansion into Southeastern Europe and the Eastern Mediterranean in Part III of the thesis, the US opposition to deviations from the most-

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<sup>702</sup> Junker groups Japan together with Germany and Italy as the countries which challenged the US concept of the international economy. Cf. Junker, *Der unteilbare Weltmarkt*, p. 93.

<sup>703</sup> Reichszentrale für Heimatdienst, ed., *Neuordnung im Donauraum. Um die Rettung Südost-Europas (Richtlinie Nr. 229)*, Aug 1932.

<sup>704</sup> GK New York to AA, 26 Feb 1932, PA-AA, R118.478.

<sup>705</sup> To shed light on the disregarded involvement of the US at the League is one of the achievements of Clavin's recent study on the economic and financial work of the League. See Clavin, *Securing the world economy*.

<sup>706</sup> DOS to LON, 8 Nov 1934, LON, R4402.



favoured-nation clause is crucial to an understanding of the design of the commercial instruments facilitating the economic expansion. A proper description of the role of Southeastern Europe requires first the setting out of the manifestations of the economic crisis in one of the world's most affected regions.

## ***2. Crisis and Opportunities in Southeastern Europe***

When Germany and Italy adapted their foreign economic policies to the world economic crisis, Southeastern Europe<sup>707</sup> was not yet part of one of the trading areas separating the global economy. World War I and the subsequent peace agreements had established a series of new borders within the territories of the extinct Austro-Hungarian and Ottoman empires. The smaller successor states were integrated into a system of political alliances (e.g. the Little Entente between Czechoslovakia, Yugoslavia and Romania under the auspices of France) to guarantee the post-war order. However, the new borders put a heavy burden on the commercial networks established under imperial rule. A series of small domestic markets replaced the larger Habsburg and Ottoman economic areas. In addition to previously existing formal trade barriers (e.g. customs frontiers), informal institutions such as the extraordinarily strong economic nationalism hampered development through trade and economic integration.<sup>708</sup>

Moreover, the specific trade pattern between the region and the more industrialised countries exposed them to hefty risks. Interwar politicians, their economic advisers and business representatives expected Southeastern Europe to undergo a transition phase of economic development. Local attempts at industrialisation offered opportunities for industrial countries to export investment goods, and conversely, to import agricultural products and raw materials for domestic consumption. Foreign companies invested especially in oil, coal, electricity, steel, as well as some metallurgical and basic investment goods industries.<sup>709</sup> Ulrich von Hassell, who was before his post as German ambassador in Rome deployed in Belgrade, admitted retrospectively that the economic wonders projected into the region's future had often been exaggerations. Nevertheless, he called for the German economy to

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<sup>707</sup> For a discussion of the spatial construct "Southeastern Europe" see the Introduction, section 3.

<sup>708</sup> Cf. Teichova, Matis and Pátek, *Economic change*; H. Schultz, *History and culture of economic nationalism in East Central Europe* (Berlin, 2006).

<sup>709</sup> See R. Nötel, 'International Credit and Finance', in M. C. Kaser and E. A. Radice, eds., *The Economic History of Eastern Europe 1919–1975*, Vol. 2, (Oxford 1986), pp. 170–295.

maintain interest. He rejected the popular argument that the industrialisation efforts would harm prosperity in the more industrialised world through increasing industrial competition and declining agricultural exports due to a rising living standard in the region. If the relationship is governed in respect of the principle of recognising “[one’s] own interest in supporting the natural development” of other countries, even larger opportunities would emerge.<sup>710</sup>

This specific trade pattern exposed the primary producers of Southeastern Europe to the price fluctuations on the international commodity markets. Throughout the 1920s, world commodity prices lost ground, and the difference between prices for industrial and agricultural products, that is, the gap between the European economic “centre” and the “periphery” widened.<sup>711</sup> Explanations as to what might have caused the crises are manifold, and the discussion is still ongoing. Overproduction, which was certainly not the only cause, was deemed crucial by many contemporary commentators. The German-Italian chamber of commerce, for instance, identified the hasty industrialisation caused by the readjustment of former war industries to commercial production as the root cause. This development had put prices under pressure, and ultimately created the bubble that burst in 1929.<sup>712</sup>

Regardless of whether the plummeting prices in the commodity sector are the only explanation for the crisis, this development had an immense impact on the countries in Southeastern Europe, and dramatically worsened their terms of trade. In addition, the harvest of 1932 was a huge disappointment. Wheat production fell behind the annual average of 1926 to 1930 in every country (except for Bulgaria). Romania collected only 20 million quintals, compared to its average of 30 million.<sup>713</sup> On top of regional factors, the global trend of rising protectionism and the erection of trade barriers added to the steep decline in trade. As Table 6 shows, exports between 1928 and 1932 decreased by up to 39 per cent in Austria and imports by up to 55 per cent in Hungary. The breakdown of trade hit Southeastern Europe particularly hard. Public finances were already under pressure from monetary stabilisation efforts, capital flight after the collapse of the regional banking giant Creditanstalt, the devaluation of sterling

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<sup>710</sup> Von Hassell, *Südosteuropa*, pp. 3-4.

<sup>711</sup> See Aldcroft, *Europe’s third world*, pp. 52-57; M. Kopsidis, ‘Missed Opportunity or Inevitable Failure? The Search for Industrialization in Southeast Europe 1870-1940’, *EHES working papers in economic history*, 19 (2012), p. 2.

<sup>712</sup> *Jahresberichte der deutsch-italienischen Handelskammer* (1932), p. 17-25

<sup>713</sup> Preparatory Commission of Experts, 19 Oct 1932, LON, R2671.

and a halt on German reparation payments following the Hoover moratorium. With trade in steep decline, a complete financial collapse loomed.<sup>714</sup>

*Table 6: Decrease of trade in Southeastern Europe 1928-1932 (in percentage quotas)*

Decrease of:	Romania	Yugoslavia	Hungary	Czechoslovakia	Austria
Exports	18	26	31	38	39
Imports	51	39	55	39	33

Source: BdI Berlino (Zanchi) to BdI (Azzolini), 21 Jan 1933, Archivio Centrale dello Stato, Fondo Iscambi, busta 43.

In order to tackle these challenges, governments enacted a shared set of measures. These did not follow a strict ideology, but nevertheless arose from a common logic, and added to the construction of a group of ‘crisis countries’. The fear of inflation was pervasive, and currency protection became paramount. International trust needed to be restored to secure international lending. Therefore, monetary policies clung to the gold standard and introduced harsh foreign exchange controls. In a climate of existential economic problems and a pernicious “each for himself” mentality, (not only) economic nationalism spread and paved the road for a rapprochement with the nationalistic regimes in Germany and Italy.<sup>715</sup> Moreover, the two countries in the West gained attraction as they possessed only scarce resources in food and raw materials and could, accordingly, stimulate vital commodities exports. Conveniently, and with far-reaching consequences for Europe’s economic relations, Germany and Italy increased their interest in the countries in crisis too.

Both countries had established commercial ties with the region long before the onset of the world economic crisis. In Germany, already before World War I these ties played a pivotal role in the formation of *Mitteleuropa*.<sup>716</sup> This spatial concept, strongly influenced by the long nineteenth century rise of new international powers in the East and West, called for an economically integrated confederation of European states, with Germany at its centre, to counter the rising global competition.<sup>717</sup> However, the importance given to Southeastern Europe in foreign policy conceptions should not disguise the fact that the region remained of

<sup>714</sup> BdI Berlino (Zanchi) to BdI (Azzolini), 21 Jan 1933, ACS, Fondo Iscambi, busta 43.

<sup>715</sup> Aldcroft, *Europe’s third world*, p. 59.

<sup>716</sup> For one of the latest works on *Mitteleuropa* see Sachse, “*Mitteleuropa*” und “*Südosteuropa*”.

<sup>717</sup> Cf. H.-E. Volkmann, ‘Zur europäischen Dimension nationalsozialistischer Wirtschaftspolitik’, in Volkmann and Chiari, *Ökonomie und Expansion*, pp. 19-44, 20.

limited relevance for Germany's actual commerce. True, its trade with the region increased throughout the decade before the War, but it was in part a restructuring from Austria (which itself was part of *Mitteleuropa*) to the smaller countries within the empire, and the growth rates of trade always remained below Germany's general trend. As the growth rate of exports was significantly closer to the level of Germany's total exports than that of imports, it can be surmised that Germany saw in the region primarily an outlet for its surplus industrial production.<sup>718</sup>

The German economy lost its favourable position as the main industrial supplier of Southeastern Europe when the treaties of Versailles stipulated the expropriation of German foreign interest and rescinded its MFN status in trade. Consequently, banks, industries and trading companies from victorious allied countries breached into former German positions.<sup>719</sup> After 1925, when Germany regained its freedom of trade, Berlin increasingly used its reinvigorating economic strength<sup>720</sup> for an "economic version of German power policy"<sup>721</sup> which clearly aimed at a revision of the post-war order, not solely, but particularly in Southeastern Europe. Within this politicisation of foreign trade, the concept of *Mitteleuropa* remained highly influential.

Since December 1926, the concept gave inspiration to the *Mitteleuropäischer Wirtschaftstag* (MWT), a lobby organisation promoting the peaceful economic penetration of Southeastern Europe. Uniquely for a lobby group, it gathered not only representatives of big business, but also agriculture, public administration and the military.<sup>722</sup> Hans Posse, as head of the RWM foreign trade department and delegate to the League of Nations of eminent importance for this thesis, mentioned as one of the biggest advantages that the orientation towards Southeastern Europe could "build on the consent of the entire economy".<sup>723</sup> Central in many versions of *Mitteleuropa* promoted by the MWT or other followers of the idea was the *Anschluss* of Austria.<sup>724</sup> This conjunction, emphatically rejected by the guarantor powers of

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<sup>718</sup> Cf. Höpfner, *Deutsche Südosteuropapolitik*, pp. 18-19.

<sup>719</sup> Cf. A. Teichova, *Kleinstaaten im Spannungsfeld der Grossmächte: Wirtschaft und Politik in Mittel- und Südosteuropa in der Zwischenkriegszeit* (München, 1988), pp. 73-80.

<sup>720</sup> Between 1926 and 1929, for instance, Germany's export growth (finished products) with regard to Hungary, Romania and Yugoslavia surpassed the growth of England, France, Czechoslovakia, and Austria, and kept growing between 1928 and 1929 when the exports of the other competitors collapsed. See Institut für Weltwirtschaft, ed., *Export von Fertigwaren nach Südosteuropa*, ASBI, Fondo Studi, n. 151, fasc. 1.

<sup>721</sup> Niedhart, *Die Außenpolitik*, p. 64.

<sup>722</sup> Cf. Freytag, *Deutschlands "Drang nach Südosten"*.

<sup>723</sup> Posse (RWM) to Ritter (AA), 4 Feb 1932, PA-AA, R105.590.

<sup>724</sup> Cf. D. Jancik and H. Matis, "'Eine neue Wirtschaftsordnung für Mitteleuropa...'" *Mitteleuropäische Wirtschaftskonzeptionen in der Zwischenkriegszeit*, in Teichova, *Österreich und die Tschechoslowakei*, pp. 329-

the post-war order, was also combated by Mussolini's foreign policy by all means at its disposal.

Italy's foreign trade with the region showed a similar tendency to politicisation throughout the 1920s. Parts of the Italian corporate world, namely the big insurance companies like *Generali* or *Riunione Adriatica*, had already established relations since the early nineteenth century.<sup>725</sup> But only with the advent of fascism did the region gain its great popularity in foreign economic policy planning, which stemmed from a combination of political considerations and trading potential. Italy, albeit among the victorious powers of World War I, had left the following peace negotiations with a feeling of having been defrauded. This sentiment grew under fascism into a firm conviction that the reshaping of borders in post-war Europe and beyond clearly disadvantaged Italy. Claims on the *terra irredenta*, regions with an allegedly Italic population and historical ties with the peninsula, shaped fascist policies towards economic expansion into Southeastern Europe and the Eastern Mediterranean. The *terre irredente* of the upper Adriatic became part of a seldom-evoked but ever-present plan for an Italian *Mittleuropa*.<sup>726</sup>

However, the desire for economic expansion was not solely inspired by irredentism. The region offered Italy significant commercial opportunities to export its industrial products (in particular textile and machines) and to import greatly needed goods such as grain, timber, oil and tobacco. In addition, local banks, under strong German influence before World War I, encouraged investors from the victorious states to replace German interest, thus creating opportunities for Italy's financial industry.<sup>727</sup> The expansion of Italian businesses, always burdened by a lack of capital and organisation,<sup>728</sup> leaped up in 1926, the year when Mussolini adopted the "quota 90" and a draconian deflationary policy, which forced companies to merge and to rationalise their work processes.<sup>729</sup>

As Germany renewed interest in Southeastern Europe after 1925, contact in the region's markets with Italian representatives became more frequent. However, the foreign policy of Germany's Prime Minister Stresemann (1924-29), who was one of the main

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388, 358.

<sup>725</sup> Cf. Feldman, 'Competition and Collaboration', p. 42.

<sup>726</sup> Cf. Petri, 'Frontiera, periferia', p. 8.

<sup>727</sup> Cf. Stanciu, 'Italian multinational banking', p. 55.

<sup>728</sup> This contemporary assessment was drawn by the Italian government. See MCom to Confindustria, Nov 1928, ACS, Fondo PCM, busta 1293, p. 21.

<sup>729</sup> Cf. V. Torunsky, *Entente der Revisionisten*, p. 154.

promoters of a German ‘economic power policy’,<sup>730</sup> took careful precautions not to create conflicts with Italy in Germany’s relations with Southeastern Europe.<sup>731</sup> Table 7 shows that Germany’s share was generally higher than Italy’s, which is not surprising considering Germany’s larger sales market and its more diversified industrial export. Nevertheless, in a few segments (e.g. wheat) Italy imported in absolute terms more than Germany, which still bought to a higher extent overseas.<sup>732</sup> Overall, the share of the rivals on the markets in Southeastern Europe remained largely constant throughout the late 1920s.<sup>733</sup> One tendency, however, clearly distinguished Germany’s and Italy’s trade relationships in the years leading up to the world economic crisis. While Germany recorded a surplus in trade, Italy generally ran a deficit (with temporary exceptions in trade with Hungary and Romania). The reasons for Italy’s performance were manifold and span from economic factors, like the Italian industry’s complete dependence on raw material imports, to more political causes.

*Table 7: Germany’s and Italy’s trade with Southeastern Europe 1927-1930 (percentage quotas on total trade and balance of trade)*

	Austria 1927/28/29	Hungary 1927/28/29	Yugoslavia 1927/28/29	Romania 1927/30
Export to D	18.2/19.6/16.7	13.3/11.7/11.7	10.6/12.1/8.5	18.6/18.8
Import from D	16.7/19.8/21	17.8/19.5/20	12.3/13.6/15.6	22.3/25.1
Balance with D	-150/-241/-346	-98/-136/-92	-220/-289/-513	-446/-41
	Schilling (mio)	Pengö (mio)	Dinar (mio)	Lei (mio)
Export to IT	8/8.3/9	3.7/3.6/6.9	24.8/26.1/24.9	5.9/12.9
Import from IT	4/3.3/3.5	4.7/4/4.4	12.9/12/10.8	8.7/7.9
Balance with IT	+39/+66/+75	-23/-19/+24	+650/+741/+1,148	-403/+1,850
	Schilling (mio)	Pengö (mio)	Dinar (mio)	Lei (mio)

Source: Iscambi, ‘Commercio Estero’, 4.32, Archivio Storico Banca d’Italia, Carte Beneduce, cart. 283.

<sup>730</sup> Schulz has argued that Stresemann did not follow Wilhelmine’s power policy, but based his economic foreign policy on a genuine interest in European economic co-operation to ensure Germany’s trade surplus. See M. Schulz, *Deutschland, der Völkerbund und die Frage der europäischen Wirtschaftsordnung 1925-1933* (Hamburg, 1997), p. 339.

<sup>731</sup> Cf. J. Bellers, *Deutsche Außenwirtschaftspolitik seit 1918: Zwischen Imperialismus und Liberalismus, Globalismus und Regionalismus* (Siegen, 2002), p. 3; M.-L. Recker, ‘Grossbritannien, Deutschland und die Südosteuropäischen Staaten 1919-1939’, in M.-L. Recker, ed., *Von der Konkurrenz zur Rivalität: Das britisch-deutsche Verhältnis in den Ländern der europäischen Peripherie, 1919-1939* (Stuttgart, 1986), pp. 51-100, 71-72. International co-ordination and the protection of national interest went hand in hand in the 1920s, also, for instance, in the form of international cartels. See Niedhart, *Die Außenpolitik*, p. 67.

<sup>732</sup> AA, ‘Gesamtausfuhr in den Jahren 1927-1929’, PA-AA, Rom-Quirinal 946a.

<sup>733</sup> In a retrospective judgment, Carl Clodius, speaking in front of the MWT, described Southeastern Europe between as 1922 and 1930 as relatively calm in terms of economic rebalancing. This changed with the German-Austrian customs union, which is addressed below. See ‘Präsidialsitzung des Mitteleuropäischen Wirtschaftstages’, 28 Nov 1935, PA-AA, R105.360.

Among the political causes were Mussolini's diplomatic manoeuvres against the "Little Entente", which are especially interesting for the triangular relationship with Germany. The AA recognised in 1928/29 a surge in Italian diplomatic action in the capitals of Southeastern Europe and especially in Bucharest and Budapest. While Hungary was considered by Konstantin von Neurath, Germany's ambassador in Rome and Hitler's first foreign minister, already a "strong corner pillar" in Rome's strategic planning, Romania was still to be included in a pact brought against Yugoslavia and ultimately France.<sup>734</sup> Precisely as Romania and Hungary received greater diplomatic attention, Italy's trade changed from surplus to deficit. It thus seems that Italy used its imports for political leverage. Neurath was quite sceptical about what he called a "fantasy construction" because Italy was "neither in its inner political structure nor as an economic entity" consolidated enough to become a centre of gravity in European power politics.<sup>735</sup> Nevertheless, the AA was interested enough in the exact procedure of Rome's approach that it instructed its embassies in the concerned countries to discreetly provide detailed accounts of the Italian initiative.<sup>736</sup>

In conclusion, it can be said that Germany's and Italy's rising economic interests in Southeastern Europe at the outbreak of the world economic crisis was to a large extent based on political considerations rather than on hard economic facts and figures. This conclusion can be drawn not only from the various, purely political considerations integrated into the conceptions of foreign economic policy, but is also supported by the actual development of trade with Southeastern Europe, which neither reflected the importance it received in foreign economic policy planning nor replaced the ties with the industrialised western world. For 1929, the League of Nations estimated that it was still the US that exported more than any other country to Germany. While the country group of Austria, Czechoslovakia, Yugoslavia, Hungary and Romania did constitute Germany's main customer, it was in part due to Germany's position as intermediary for many products, which the Southeastern European countries bought in third-party countries. For Italy's commerce, this country group played even a less-important role, being only the fifth-important supplier and purchaser.<sup>737</sup> What

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<sup>734</sup> Recent research has pointed out that France saw the Little Entente alliances increasingly „as a liability rather than an indemnity“. See Clavin, *Securing the world economy*, p. 180.

<sup>735</sup> DB Rom to AA, 'Politischer Bericht Neurath', 2 May 1928, PA-AA, R30.254.

<sup>736</sup> AA to various ambassadors (strictly secret), 29 May 1928, PA-AA, R30.254. This leads to the question to be addressed in Part III whether Fascist Italy's foreign economic initiatives in Southeastern Europe inspired Germany's initiatives after the world economic crisis.

<sup>737</sup> Société des Nations, ed., *Les Relations Commerciales De Certains Pays Européens Avec les Pays Danubiens*, 24 Sep 1932, ASBI, Carte Beneduce, n. 343, fasc.2. According to German statistics, imports from the "Danube countries" (AT, HU, RO, YU, BG) amounted in 1927-29 on average for 4.5 per cent of total imports. Exports to

mattered in the aftermath of the world economic crisis was political will, which made the region economically interesting. As the political and economic future of the region in crisis was fundamentally shaped under the auspices of the League of Nations, the German and Italian interest in the work of the first international organisation increased.

### ***3. The League of Nations' Search for Economic Relief***

The League of Nations, founded after World War I in Geneva, was the first international organisation to broker world peace. Moreover, during the world economic crisis it became an important platform for those concerned with co-ordinating an international response.<sup>738</sup> Yet, the first “Conference with a View to Concerted Economic Action” in February 1930 disregarded a truly international perspective.<sup>739</sup> The League’s own report on the conference speaks regretfully of a strictly European affair. Moreover, it deplored that the recent sharp rise of tariffs in the US had poisoned the atmosphere of the conference.<sup>740</sup> The battle against the spiral of increasing tariffs and other protectionist barriers became one of the primary concerns of the League’s agenda. Therefore, the League officials, largely adhering to a liberal order of world trade,<sup>741</sup> witnessed sorrowfully the breakdown of an arranged global tariff truce.<sup>742</sup>

A second element in the League’s diagnosis of the root causes of the crisis appeared not much later, in the commercial convention signed on 24 March 1930. The convention, pieced together after the failed February conference to prolong existing commercial agreements and prevent unilateral tariff increases, argued that special attention should be dedicated to, “adjusting the economic relations between industrial and agricultural countries.” The question had been put on the agenda by the “States of Eastern Europe and the Danube basin”. This country group argued that the agricultural protectionism of Western countries would significantly contribute to their economic troubles.<sup>743</sup> The perception of shared export

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the region amounted on average for 7.4 per cent of total exports. See ‘Die deutsche Gesamteinfuhr und die deutsche Einfuhr aus den Donauländern’, n.d., PA-AA, R105.591.

<sup>738</sup> Of great importance for this chapter is Clavin, *Securing the world economy*.

<sup>739</sup> Cf. Schirmann, *Crise, coopération*, pp. 83-94.

<sup>740</sup> ‘Évolution De La Politique Économiques Et Commerciale’, 19 Jun 1931, LON, C.E.U.E./E.E./1-13.

<sup>741</sup> For instance, the experts programming the seminal world economic conference to be held in London early in 1933 argued that the “achievement of international equilibrium demands also liberal commercial policies”. Preparatory Commission of Experts, 19 Oct 1932, LON, R2671; See Clavin, *Securing the world economy*, p. 4.

<sup>742</sup> Stoppani to Ministero Economia Nazionale, 28 Sep 1929, LON, European Economic Union, R2868.

<sup>743</sup> ‘Évolution De La Politique Économiques Et Commerciale’, 19 Jun 1931, LON, C.E.U.E./E.E./1-13.



difficulties triggered solidarity between the countries of Eastern and Southeastern Europe, which even flouted the political coalitions formed by the Versailles treaties.

In July 1930, representatives from Yugoslavia, Romania and Hungary met in Bucharest to agree on a common foreign economic policy. The meeting gave rise to a series of follow-up conferences, eventually joined by Bulgarian and Polish officials, thus forming a group sometimes referred to as the “agrarian bloc”.<sup>744</sup> Later, the group was joined by Czechoslovakia as well as Latvia, and constituted a permanent committee whose members agreed to inform each other about any bilateral commercial negotiation they conducted.<sup>745</sup> The *Neue Zürcher Zeitung*, as one of the major Swiss quality newspapers well informed of the current developments in Geneva, reported that out of this pooling of interests, the crisis-ridden countries had gained new strength. In dealing with the League they noticed that, “due to their united position their demands attracted much more attention”. Guided by the conviction to constitute a sales area potentially more interesting to Central Europe than the US, the interest group not only had envisaged a common export organisation for the region’s crops, but also a joint reduction of industrial imports to exert pressure on the European countries accused of closing their markets for agricultural imports.<sup>746</sup>

The League, constantly countering rising protectionism, took the accusation seriously. Its statistical surveys<sup>747</sup> demonstrate that while the conditions of wheat production deteriorated in Southeastern Europe, the production in Western European countries (except England & Wales) actually increased (see Table 8). With its unique international perspective on the problem, the League clearly saw the shortcomings of “national measures to restore monetary and financial stability”. Of course, protectionist measure helped to ease pressure of agricultural lobby groups in Western Europe, but the increased competition added to the already-falling export revenues in Southeastern Europe. Therefore, economic and social gains in the West further stressed the financial situation in Southeastern Europe.

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<sup>744</sup> AA to various embassies, 4 Aug 1930, PA-AA, Rom-Quirinal 946a.

<sup>745</sup> Comité Permanent D’Etudes Economiques Des Etats De L’Europe Centrale Et Orientale, 16 Feb 1931, LON, R2904.

<sup>746</sup> ‘Die osteuropäische Wirtschaftsföderation’, *Neue Zürcher Zeitung*, 17 Nov 1930.

<sup>747</sup> In general the League’s surveys introduced a new area of statistical reporting, and are still of great use for scholarship. Cf. S. White, ‘The League of Nations. A Primer for Documents Research’, available: <<http://www.princeton.edu/~sbwhite/un/leagwebb.html>> (retrieved 16 Jul 2015).

Table 8: Wheat production in Western Europe 1926-1932 (in million quintal)

	Average 1926-30	1931	1932
Germany	33.7	42.3	50.7
France	73.7	71.9	90.2
Italy	60.7	66.5	72.4
England & Wales	12.9	9.8	11.1

Source: Preparatory Commission of Experts, 19 Oct 1932, LON, R2671.

The League had a clear idea of the tensions arising from the relationship between the industrial “centre” and the agricultural “periphery”, not only from the trade flows, but also from the related financial flows. It had administered many of the loans granted by international lenders to the region to support the economic reconstruction in the newly founded nation states.<sup>748</sup> If the revenues from agricultural exports continued to fall, thereby adding to the already-high financial burden on public households, the League warned that defaults could no longer be prevented. For the League this risk, “demands that the balance of payments be righted by the creditor countries either receiving relatively more imports compared with their exports, or by readjusting their debt claims”.<sup>749</sup>

It is thus that in spite of its global focus, the League, and especially its economic and financial organisations (EFO), became particularly concerned with the primary producers of Southeastern Europe.<sup>750</sup> The situation was grave indeed. According to Karl Blessing, German delegate to the Bank for International Settlements, Hungary, for instance, had “lived in the past years perhaps more than any other country from foreign loans and foreign bonds”, and turned into a “hopeless case”. Blessing reckoned that only fundamental changes in the commercial order of the Danube basin and especially its connection with the “Central European industrial area” (*Mittleuropäisches Industriegebiet*) could solve the crisis.<sup>751</sup>

While in this statement Blessing evoked the idea of *Mittleuropa* as a solution to the crisis, the countries in Southeastern Europe were the ones to come up with the idea of getting a grip

<sup>748</sup> The loans granted under the auspices of the League include: Austrian 6 per cent guaranteed loan, Bulgarian 7 per cent refugee loan, Bulgarian 7.5 per cent stabilisation loan, Greek 7 per cent refugee loan, Greek 6 per cent stabilisation loan, Hungarian Government 7.5 per cent loan. Cf. League Loans Committee, 18 Jul 1932, LON, Comité pour la Restauration des Pays de l’Europe Centrale et Orientale, R2923.

<sup>749</sup> Preparatory Commission of Experts, 19 Oct 1932, LON, R2671.

<sup>750</sup> See Clavin, *Securing the world economy*, p. 180.

<sup>751</sup> Blessing (BIZ) to Hedding (LON), 14 Oct 1931, PA-AA, R105.728.

on the crisis by changing the distribution of the European economy between the “periphery” and the “centre”. At the agrarian conference in Warsaw (28-30 August 1930), representatives of Baltic, Central and Southeastern European countries<sup>752</sup> broadly formulated two sets of measures. Firstly, they proposed a scheme to establish an international organisation granting agricultural credit, and secondly, they argued for preferential treatment of the region’s grain exports by Western European import policies. With the financial collapse looming, the Warsaw conference members urged the League to look into the proposal.<sup>753</sup>

For the hesitant League, however, the notion of preferences involved a fundamental change in orientation, as it meant shifting a central pillar of international economic relations: the most-favoured-nation (MFN) clause. A preferential system could, by definition, only work if the advantage offered by a certain importing country to Southeastern Europe’s grain would not automatically have to be offered to any other grain exporter. Nevertheless, as the scheme seemed to offer the sorely needed increase of agricultural prices, the League took the matter up for further consideration.

Among the various bodies of the League, several were particularly concerned with the crisis in Southeastern Europe.<sup>754</sup> The inter-governmental financial committee (FC), constituted by officials delegated by national governments, oversaw the loans granted under the auspices of the League, advised governments on monetary and fiscal policies, and was charged with the task to organise an international agricultural mortgage credit scheme.<sup>755</sup> By the League’s constitution, the FC could only provide advice, while the council, as one of the League’s principal organs (along with the assembly and the permanent secretariat), took decisions. However, the council followed the advice of the FC almost without exception, “so that in practise the centre of gravity in the domain of finance [was] rather more with the financial committee”. The League offered this evaluation of the Committee’s functional reach when the US official Norman H. Davis joined it in 1931, while the US still refrained from acceding to the League.<sup>756</sup> The economic committee (EC), similarly constituted as the FC, but

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<sup>752</sup> The Polish government invited representatives from Finland, Estonia, Latvia, Czechoslovakia, Hungary, Romania, Yugoslavia and Bulgaria.

<sup>753</sup> MAF to various ministries, 25 Oct 1930, ASMAE, AC, Italia, 1930-31.

<sup>754</sup> It should be mentioned as well that even contemporaries dealing with the League’s economic and financial organisations confused denominations and institutional classifications, and reproduced these inaccuracies in the documents consulted for this thesis. For a concise overview of the opaque structure of EFO, see P. Clavin and J.-W. Wessels, ‘Transnationalism and the League of Nations. Understanding the Work of Its Economic and Financial Organisation’, *Contemporary European History*, 14, 4 (2005), pp. 465-492.

<sup>755</sup> MAF to various ministries, 25 Oct 1930, ASMAE, AC, Italia, 1930-31.

<sup>756</sup> LON to Norman Davis, 5 Aug 1931, Library of Congress, Norman H. Davis Papers, Box 34.

even more successful in institutional growth (both in membership and reach), analysed the development of commerce and took up the matter of agricultural preferences.<sup>757</sup> In addition to the two inter-governmental committees, staffed with experts employed by national governments, the League employed its own officials who ran the “sections”, as the different functional agencies of the League were called. The economic and financial section served as the secretariat to EC and FC and offered a significant amount of guidance.<sup>758</sup> According to Alfred Husslein, an official at the economic and financial section of German origin, the problem of “*Mittleuropa*” stood out on its agenda.<sup>759</sup>

Not less important, the Commission of Enquiry for European Union (CEEU) was established to translate Aristide Briand’s seminal plan for a union of Europe into action. After a request of 27 countries at the eleventh session of the League’s assembly (9 September to 4 October 1930) it merged with the work of the League, and became increasingly engaged in questions of credit and preferences for the Southeastern European countries in crisis.<sup>760</sup> These issues became so prominent that later, in 1932, when under rising political tension the pan-European idea seemed rather remote, many members of the CEEU hoped to “revive with the problem of *Mittleuropa*” its ailing work.<sup>761</sup> Common to these bodies was that they had rather an advisory function and could not put a scheme directly into force. Nevertheless, by recommending one approach as most promising, the international organisations could make an impact on the formulation of national policies and, moreover, provide international legitimacy between different national approaches competing on the international stage.<sup>762</sup>

As preferences for Southeastern Europe’s agricultural exports were about to gain a foothold at the League, the importance of two countries increased. Germany and Italy were not only already the two main importers of grain from the region; they even bore the potential to further increase imports by reducing protectionist barriers and shifting their imports from overseas markets to Europe (see Figure 2). Their decisive position as trading partners was also recognised in Southeastern Europe. The Romanian president of the League’s general assembly (1930-32), Nicolae Titulescu, promoted the image of a house, with the Southeastern

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<sup>757</sup> ‘Évolution De La Politique Économiques Et Commerciale’, 19 Jun 1931, LON, C.E.U.E./E.E./1-13.

<sup>758</sup> Cf. Clavin and Wessels, ‘Transnationalism and the League’, p. 472-475.

<sup>759</sup> A. Husslein, ‘Die Organisierung Mitteleuropas’, 8 Mar 1932, PA-AA, R105.590.

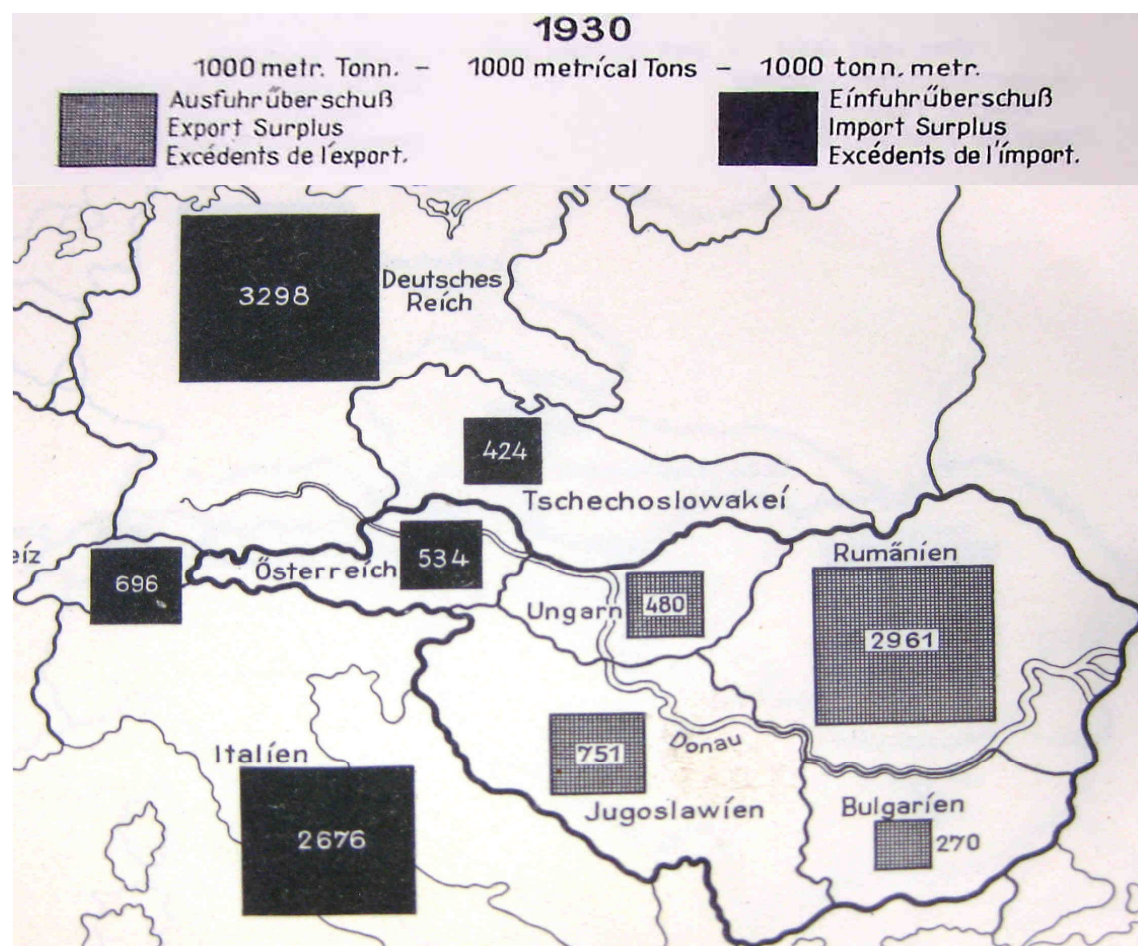
<sup>760</sup> Kratel (Geneva) to AA, RWM, 1 Oct 1930, PA-AA, R118.419.

<sup>761</sup> Dufour-Feronce (LON) to von Bülow (AA), 12 Mar 1932, PA-AA, R105.590.

<sup>762</sup> FC, Report on its 45th session, 24 Mar 1932, PA-AA, R118.479. The thesis does not claim to deal with every international organisation working on the crisis in Southeastern Europe. It represents, however, the administrative bodies most concerned according to the consulted documentation in German, Italian, US, and the League’s archives.

European primary producers as the basement, Germany and Italy comprising the main floor, and France, UK, US and all the other countries constituting the roof.<sup>763</sup> Therefore, a solution to the ultimate problem, the plummeting prices of Southeastern Europe's agricultural goods, seemed to the experts at the League barely possible without the involvement of Germany and Italy. The two countries with aspirations to revise the international post-war order recognised the means for political leverage that had fallen into their hands. Accordingly, they intensified their ambitions at the League, and their mutual relationship at the international organisation became closer.

**Figure 2: Surplus and deficit of grain (wheat, barley, maize) production in 1930**



Source: AA, 'Verteilung der Aus- und Einfuhr der Südoststaaten', PA-AA, R105.591.

<sup>763</sup> AA to DG Bukarest, 31 Jan 33, PA-AA, R118.378.



## **Chapter 6: Political Revisionism and International Economic Rescue**

### *Introduction: Towards International Collaboration*

Chapter 5 demonstrated the increasingly parallel nature of the German and Italian reaction to the global trend. Italy maintained longer than Germany a certain degree of commercial openness towards the countries remaining on the gold standard, while eventually it also adapted a foreign economic policy exhibited by Germany. Both countries not only saw their commerce with their former major trading partner, the US, languishing, but also experienced rising political tensions with the international superpower over accusations of protectionism and discrimination.

Moreover, Germany and Italy shared a fascination for closer ties with Southeastern Europe. The intense interest derived from political as well as economic motives. Politically, the post-war reconstruction of borders in Southeastern Europe had created a map that was anathema to Berlin and Rome. In economic terms, the developing countries offered Germany and Italy much-needed raw materials and markets for their industrial surplus production. However, despite similar economic and political motives, Rome first adopted the strategy of using its import capabilities for political leverage – a strategy that is further investigated in Chapter 6.

While the political and economic projections in Germany and Italy grouped the countries of Southeastern Europe into a cluster, the countries themselves acted together. A crucial factor was the shared self-perception as crisis countries. As a result of the indeed harsh economic consequences of the crisis, they pooled their efforts and advanced their economic interest at the League of Nations. It is thus that the international organisation founded after World War I to guarantee international peace and stability became concerned with the economic crisis in Southeastern Europe.

Chapter 6 analyses in detail the League's different initiatives to solve the crisis on behalf of Germany, Italy and the Southeastern European states, as well as their interrelations. In order to better understand the connections between the initiatives at the national policy level and in the international organisations, it is first observed who represented Rome and Berlin in Geneva. Afterwards, the analysis turns to the commercial instruments discussed as a

means to battle the crisis: customs unions and preferential agreements. The overarching question is how the institutions were constructed that were about to govern the triangular economic relationship between Germany and Italy in Southeastern Europe.

### ***1. Intensifying Contact at the International Organisation***

During the world economic crisis, Italy was solidly represented at the League. It was one of only four members (together with Britain, France and Japan) who had profited from ongoing committee membership. Its nationals were widely engaged in the various organisational units of the League, to the extent that the fascist element at the international organisation started to concern Britain. For instance, when the succession to the vacant chief post in the financial and economic sections was discussed in 1930, the Italian candidate Pietro Stoppani, who initially had good prospects, seemed politically unacceptable to London. Instead, a compromise was found in that the unit was split into a financial section, led by British economist Alexander Loveday, and an economic section, led by Stoppani.<sup>764</sup>

As the literature on Stoppani points out, the fear of fascist leanings of the League's top official was exaggerated. On the contrary, Stoppani repeatedly proved to be an adherent to the liberal US-trade policy established by Cordell Hull, and his initiatives to dismantle protectionist frameworks roused opposition in Berlin and Rome.<sup>765</sup> And yet, a depiction of Stoppani as an internationalist counterpart to the Duce, whose loyalty was uniquely with the League, does not do justice to his complex agenda. Contrary to the League's documentation, one can learn from the archives in Italy and Germany that Stoppani was especially concerned with the situation in Southeastern Europe, and maintained ongoing communication with the Italian government over the matter. His subordinate Alfred Husslein believed that Stoppani and the Italian government shared the conviction that in order to lift the countries out of the crisis, Germany and Italy had to be included in any possible initiative.<sup>766</sup> Moreover, before Stoppani's career leap to the top of the economic section, he travelled in 1930 to Berlin to meet officials of the RWM and the AA not only to discuss the upcoming Warsaw conference of the "agricultural bloc", but also to recommend himself as a candidate for Berlin.<sup>767</sup>

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<sup>764</sup> See Clavin, *Securing the world economy*, p. 34.

<sup>765</sup> Cf. Clavin and Wessels, 'Transnationalism and the League', p. 482.

<sup>766</sup> Dufour-Feronce (LON) to von Bülow (AA), 12 Mar 1932, PA-AA, R105.590.

<sup>767</sup> Husslein (LON) to AA, 23 Aug 1930, PA-AA, R118.418.



For other senior Italian officials at the League, the question of loyalty was less ambiguous.<sup>768</sup> Fulvio Suvich, under-secretary of state for the MAE, took the chair of the financial committee in 1932. As has already been mentioned in Part I, Suvich was involved in the construction of the bilateral German-Italian commercial relationship, but he was also the mastermind behind Fascist Italy's policies concerning Austria and Southeastern Europe.<sup>769</sup> His expertise and affiliations made him indispensable for both the international organisation and the fascist government. As a board member of the Austrian national bank he was an important expert for the League's committee administering the internationally granted loans, but his affiliation to the League served also for the top MAE official to promote Italy's ambitions for Southeastern Europe.

Furthermore, Giuseppe De Michelis held among several other affiliations at the international organisations<sup>770</sup> the position of president of the International Institute of Agriculture in Rome. Although the Institute was an independent institution (and had been founded already in 1905), its work was largely intertwined with the League's tasks, and it benefited from permanent representation at the League's conferences. Representation was often carried out by De Michelis.<sup>771</sup> By this means, Rome was able to influence with a loyal supporter of fascism the work of the League in order to pursue Italian interests. For instance, in the midst of the world economic crisis, De Michelis propagated in discussions on reform paths the Italian *corporativismo* as an ideal form of economic constitution. Thereby, he was not unsuccessful in increasing the international reputation of Fascist Italy.<sup>772</sup> His work in this regard was backed by the nearby *Centro Internazionale Di Studi Fascisti* in Lausanne.<sup>773</sup> International reputation was in dire need because the world economic crisis weighed heavily on Italy as well. Mussolini, well aware of the fact, urged his first reluctant Foreign Minister

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<sup>768</sup> The US delegation preparing for the world economic conference in 1933 gave a vivid example of how Fascist Italy tried to keep a coherent stance at the international organisations. The US consul spotted one "young man from the Foreign Office" whose only task was to keep all the experts properly in line with Rome's strategy. See Memorandum by the Consul at Basel, European Views on the Conference, 6 Oct 1932, FRUS, 1932 I.

<sup>769</sup> See Cuomo, 'Trieste, l'Italia', p. 57; Cf. Suvich and Bianchi, *Memorie*, p. 79.

<sup>770</sup> De-Michelis was also a member of the Sub-Committee for Economic Co-ordination under the auspices of the CEEU. See LON, Directeur de la Section des Relations Economique to national governments, 17 Jun 1931, LON, R2909.

<sup>771</sup> AA, report on Grandi visit to Berlin, 24 Oct 1931, PA-AA, R105.641. Accordingly, the International Institute of Agriculture was notorious for its fascist leanings. See Clavin, *Securing the world economy*, p. 85.

<sup>772</sup> Kratel (Geneva) to AA, RWM, 1 Oct 1930, PA-AA, R118.419. According to Liebscher, certainly a lot more could be said on the cooperative propaganda of Fascist Italy at the international institutions. Although not explicitly dealing with the topic, her dissertation introduces an opening for discussion. See Liebscher, *Freude und Arbeit*, p. 111.

<sup>773</sup> LON to MAE, 28 Aug 1931, ASMAE, Fondo Società delle Nazioni, busta 98.

Dino Grandi (1929-32) to take the economic and financial pressure into account, and embrace a pro-League strategy.<sup>774</sup>

Germany was accepted as a member of the League only in 1926, but soon after staffed its entitled posts with highly capable experts. Ernst Trendelenburg, state secretary for the RWM and the driving force behind Germany's commercial contracts in the Great Depression,<sup>775</sup> acceded to the economic committee. In November 1932, he was called to join the League's secretariat as under-secretary general and was replaced with Hans Posse, head of the foreign trade department at the RWM. That Berlin delegated an equally competent, high-level official to the League highlights that in spite of public criticism of the League's efficiency, its work on economic and financial matters was considered important indeed.<sup>776</sup> This was explicitly demonstrated when in 1932, during the succession of the League's secretary-general, Berlin and Rome held an informal meeting on how to reform the top governing level of the League. The AA stated that the potential successor Joseph Avenol was not in Germany's interest, but it could nevertheless accept the French candidate, "if Germany were represented by an under-secretary-general who [...] would be the head of an influential department (economic- and financial section)".<sup>777</sup>

Moreover, Paul A. Kempner, since 1922 a partner in the bank *Mendelssohn & Co*, was appointed German consul general in Geneva and member of the financial committee in 1932. In addition to his engagement in private banking and the League, he also joined meetings of *Mitteleuropäischer Wirtschaftstag* (MWT), the major lobby group promoting Germany's commercial expansion into Southeastern Europe.<sup>778</sup> Apart from the committees, the bustling Clemens Lammers joined the CEEU where he became a member of the more exclusive Sub-Committee for Economic Co-ordination.<sup>779</sup> That he was an influential representative of the German industry, with affiliations in the boards of the chemical giant *IG Farben* and the central lobby group RDI, illustrates, together with the appointment of Kempner, that

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<sup>774</sup> See Scarano, *Mussolini e la Repubblica di Weimar*, p. 245; Torunsky, *Entente der Revisionisten*, p. 223.

<sup>775</sup> For Trendelenburg, Germany's commercial contracts had to serve simultaneously German interest as, "pure foreign policy, economic policy and financial policy". He argued that the "greatest potential for friction" was in differentiating "economic and foreign policy interests". Quoted in Spaulding, *Osthandel and Ostpolitik*, p. 111.

<sup>776</sup> DK Genf to AA, 15 Nov 1932, PA-AA, R118.462.

<sup>777</sup> AA to DB Rom, 17 Aug 1932, PA-AA, Rom-Quirinal 802A. Mussolini declared with regard to the succession that he "attaches special importance to proceed in conjunction with Germany". However, the Duce's reassurance could not entirely convince in the AA. Because of the recent conflict over foreign exchange and quotas in the bilateral German-Italian commercial relationship, it expected Rome to keep all major relations sound (especially with the United Kingdom). See DB Rom to AA, 21 Sep 1932, PA-AA, Rom-Quirinal 802A.

<sup>778</sup> 'Präsidialsitzung des Mitteleuropäischen Wirtschaftstages', 28 Nov 1935, PA-AA, R105.360.

<sup>779</sup> LON, Directeur de la Section des Relations Economique to national gouvernements, 17 Jun 1931, LON, R2909.

Germany's corporate world acknowledged the importance of the League's economic and financial work.

As for the financial and economic sections, the German representation lagged far behind. This was particularly regrettable as with these sections, "the League of Nations developed a distinct and increasing influence", according to Kempner's evaluation. The already-mentioned economic section member Alfred Husslein was praised as highly skilful, but his sphere of influence was limited to economic-theoretical work. Kempner was especially upset with the financial section which "resembles an English-French club with a few neutral members". Not a single German official was among the members of the section.<sup>780</sup> To advance German interest at the international organisations support was very much needed.

The initiative for a closer German-Italian co-ordination was taken up in autumn 1930 over the claim of the Southeastern European states to fight the economic and financial crisis with preferential treatment of their agricultural products. The League accepted the plea at the "Second International Conference with a View to Concerted Economic Action" in November 1930.<sup>781</sup> A committee was formed to develop strict criteria for the acceptance of preferential regimes, as they would alter the MFN clause, the fundamental principle of international commerce, which the League intended to keep. Under its Chairman and Swiss delegate to the League, Walter Stucki, the "Stucki-Committee" elaborated that preferences should be legitimate if they are limited in time, only intended to stabilise prices, that is, not to increase production, and most importantly, receive acceptance by all the international trading partners possessing MFN-status in the countries establishing a preferential system.<sup>782</sup>

The idea was immediately and eagerly taken up by Berlin, much to the regret of its political opponents. The Polish government, very active in formulating a common position of the region's "small" countries, pointed out the antagonism between the "Warsaw" and the "German conception" to organise the European economy. Berlin pushed the argument at the CEEU that a preferential system including only the primary producers makes economically little sense and that economies with a large deficit in agricultural production (such as Germany) had to be included.<sup>783</sup> In addition, the German government reassured the

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<sup>780</sup> Kempner to AA, 19 Aug 1932, PA-AA, R118.482.

<sup>781</sup> AA, 'Aufzeichnung 2. Konferenz für wirtschaftliche Zusammenarbeit in Genf', 17-26 Nov 1930, PA-AA, Rom-Quirinal 946a.

<sup>782</sup> The Stucki-report became one of the most widely used documents by German representatives to legitimise preferential access of Southeastern Europe's grain to the German market. Cf., for instance, AA, 'Aufzeichnung zur Präferenzfrage', 1 Apr 1932, PA-AA, R106.131.

<sup>783</sup> CEEU, 'Réunion pour l'Écoulement des Stocks de céréales de 1930', 23 Feb 1931, LON, C.E.U.E., vol. 281.

agricultural countries that it was just supporting their request at the various League bodies working on the matter. Nevertheless, this support was granted on two conditions, which were “obvious” for Berlin. First, Germany’s commercial relations with other markets would not be harmed, and second, the agricultural countries suggest “reciprocal concessions” granted to Germany’s industrial export.<sup>784</sup>

The AA and the RWM admitted that there was a political agenda behind the economic rescue plan. The two crucial authorities reckoned that, “those countries, which gain increasing economic importance as sales areas for the Southeastern States, must for the same reason gain increasing political weight, and this would imply that the political weight of Germany, and of Italy too if it joins as a sales market, increases in Europe”.<sup>785</sup> Posse claimed that the German government’s two major foreign economic goals in Southeastern Europe were firstly, a trade surplus as high as possible to meet Germany’s liabilities and the challenge of mass unemployment, and second, to prevent “encirclements by the construction of European blocs”. To tackle the latter all that was necessary was to demonstrate that, “the German Reich in spite of its financial and economic weakness is not willing to neglect its power as a sales market”.<sup>786</sup> Of course, this agenda was not publicly stated, and Berlin instructed its embassies in Central and Southeastern Europe to avoid giving the impression that the conception differed from the plans developed by the agrarian export countries.<sup>787</sup>

However, at the same time Pierre-Étienne Flandin, French minister of commerce and industry, travelled the capitals of Southeastern Europe to promote his alternative plan for economic recovery. Basically, his plan replaced the envisaged preferential import tariffs with import quotas for agricultural products. Extension of credit was an essential part of his plan, and he hoped that greater financial capabilities would allow Southeastern European primary producers to support agricultural sales, the construction of storage facilities and the purchase of agricultural machines. The French plan, therefore, prescribed an extension of credit as a first cure against the crisis, whereas the plan of the affected countries and Germany foresaw a stimulation of trade in the first place, with financial recovery ideally to follow. Technically, a combination of both approaches, with the financially strong France supporting financial stability, and Germany, as the biggest importer of the region, granting new export opportunities, could have been the ideal remedy. But Berlin scented “the French intention [...]

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<sup>784</sup> AA to various embassies in Northeastern and Southeastern Europe, 9 Oct 1930, PA-AA, Rom-Quirinal 946a.

<sup>785</sup> Eisenlohr (AA) to DB Rom, 13 Jan 1931, PA-AA, Rom-Quirinal 946a.

<sup>786</sup> Posse (RWM) to Ritter (AA), 4 Feb 1932, PA-AA, R105.590.

<sup>787</sup> AA to various embassies in Northeastern and Southeastern Europe, 9 Oct 1930, PA-AA, Rom-Quirinal 946a.

to hinder a solution of the problem which would open Germany greater possibilities for industrial sales in Southeastern Europe than France”, and therefore showed only “strongly reduced” interest in the Flandin-plan.<sup>788</sup>

To keep the plan for agricultural preferences alive, Berlin needed more allies. The main agricultural deficit countries in neighbouring Europe, Italy and Austria, ranked highly as potential candidates. Italy seemed especially approachable because on the eleventh session of the League’s General Assembly (10 September-4 October 1930) its representatives had signalled their intention not to agree with a bloc formed only by the Southeastern European countries in crisis while excluding major European powers. As in the German argumentation, no solution was expected from a mere extension of foreign loans, and the “decisive word” had to belong to the neighbouring importing countries.<sup>789</sup> The possibility to co-operate with Germany in dealing with the crisis in the “periphery” was according to the German embassy in Rome “congenially welcomed”.<sup>790</sup>

However, in a meeting between Karl Ritter and Giuseppe De Michelis in connection with the Assembly, unforeseen difficulties arose. The head of the commercial department of the AA suggested to Rome’s extended arm at the League that Italy should conclude commercial contracts on a preferential basis with Romania and Yugoslavia. De Michelis evaluated rather sceptically the project’s feasibility. He assumed that the countries granting preferential treatment to only a few select trading partners would need to rely on exceptions to the MFN clause. In the case of his own country, De Michelis feared retaliations by Italy’s other trading partners deprived of their MFN status in Italy. Given De Michelis’ reluctance, the matter was adjourned to the next conference under the auspices of the League.<sup>791</sup>

The failed attempt to convince Italy on commercial preferences caused irritation in Berlin as well as the Roman embassy, and it was put into question if the “francophile” De Michelis was a “suitable middleman” to develop a common German-Italian position. Since it could hardly be expected that he “responded to German wishes”<sup>792</sup>, the AA suggested involving Angelo Di Nola, Italian delegate to the economic committee, who actively advocated a joint action.<sup>793</sup> In fact, the co-operation between Di Nola and Posse at the economic committee helped to keep the matter on the agenda, but the meeting at the

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<sup>788</sup> AA (Ritter) to embassies in Southeastern Europe, 13 Oct 1930, PA-AA, Rom-Quirinal 946a.

<sup>789</sup> ‘Paneuropa a Ginevra. La prima seduta del Comitato di studio’, *La Stampa*, 24 Nov 1930.

<sup>790</sup> DB Rom to AA, 9 Oct 1930, PA-AA, Rom-Quirinal 802A.

<sup>791</sup> AA to DB Rom, 10 Oct 1930, PA-AA, Rom-Quirinal 946a.

<sup>792</sup> DB Rom to AA, 24 Oct 1930, PA-AA, R241.112.

<sup>793</sup> AA to DB Rom, 4 Nov 1930, PA-AA, Rom-Quirinal 946a.

economic conference in Geneva in November 1930 still ended in disappointment. The MAE had sent the head of its commercial department, Bonifacio Ciancarelli, who proved to be “very reserved if not to say negative“ regarding preferential treatments. Accordingly, throughout the conference the German delegation reported disruptive behaviour, especially by De Michelis. It was deplored that he not only stayed away from the official workshops of the conference, he also missed the simultaneous German-Italian bilateral meetings. Moreover, with his carping and reckless rejection of agricultural preferences, he disavowed other Italian speakers, who expressed more nuanced positions.<sup>794</sup>

Certainly, Berlin acknowledged the threat of overseas retaliation caused by European preferences, but it raised doubts as to this being the only explanation for Italian hesitance. The MAE had argued that only informing Italy’s major trading partners in the Americas (especially Argentina and the US) about the intention to establish a European preferential system would provoke the introduction of a similar system on the American continent, which would harm Italy’s vital commercial interest. Italian aloofness for the German plan, however, seemed not only to build on concerns for overseas markets, but also on mistrust. Ciancarelli voiced at the League’s Assembly (November 1930) the suspicion that, “Germany conducts at least a feint action”.<sup>795</sup> To Ernst Eisenlohr, present in Geneva as an AA delegate, the fear of overseas retaliation was only pleaded. In fact, Italy opposed the German plan, which also foresaw a preferential treatment of Yugoslavian grain, because it would strengthen the bargaining power of a country that was a very important trading partner and the central target of revisionist claims of Fascist Italy.<sup>796</sup>

The stalled initiative to co-ordinate a joint action demonstrates the amount of mistrust prevailing in Italian government circles vis-à-vis the German economic plans for Southeastern Europe. This assessment weighs even more heavily when looking at other, more political issues concerning Southeastern Europe where German-Italian co-ordination at the League worked fairly well. In reporting from the League’s session of January 1931, the Italian press praised the successful delegation, which had released the fascist country from international isolation and advanced it to the ever-desired status as a “*grande Potenza*” in Europe.<sup>797</sup> The Italian delegation had earned respect for arbitrating the situation of the German-speaking

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<sup>794</sup> AA, ‘Aufzeichnung Wiehl über deutsch-italienische Besprechungen aus Anlass der Wirtschaftskonferenz in Genf im November 1930’, PA-AA, Rom-Quirinal 946a.

<sup>795</sup> DB Rom to AA, 13 Dec 1930, PA-AA, Rom-Quirinal 946a.

<sup>796</sup> AA (Eisenlohr) to DB Rom, 13 Jan 1931, PA-AA, Rom-Quirinal 946a. For the German-Italian rivalries concerning the Yugoslavian market see below, Chapter 8.

<sup>797</sup> ‘I lavori Ginevrini’, *Il Popolo di Roma*, 23 Jan 1931.

minority group in Upper Silesia, which became part of Poland in accordance with the peace treaties following World War I.<sup>798</sup> Moreover, in the preparation of the disarmament conference, Italian Foreign Minister Dino Grandi worked closely together with his German colleague Julius Curtius. They achieved that the Czechoslovak Foreign Minister Edvard Beneš, who was running with French backing for the position as head of the conference, had to give up his ambitions. While in this manoeuvre Grandi was still annoyed about Curtius restraint, which had culminated in the “strange suggestion” to leave the “honour to fight the candidacy of Benes” to Italy,<sup>799</sup> a simultaneous joint action at the CEEU proved to be a breakthrough.

The institution, which engaged in the design of a new economic order for Europe, entered in January 1931 into controversy about the accession of new members. Grandi and Curtius backed an invitation of Russia and Turkey to join the CEEU as full members.<sup>800</sup> Yugoslavia and Romania immediately opposed the idea, and received support from the founding father of the commission, Aristide Briand. Nevertheless, Britain joined the ranks of the German-Italian front, thus tipping the scales for the revisionist powers.<sup>801</sup> Grandi hailed the success of his request, which was hoped to “considerably reduce the primitive pan-European programme”. According to Grandi, France has “felt seriously threatened in its European policy at Geneva by Italy”, and for the first time Italy had “forced Germany to dare” acting against France.<sup>802</sup> In view of the common future, Grandi rhapsodised that “we have driven a nail into the wall, on which we can attach many things”.<sup>803</sup>

German Foreign Minister Curtius shared Grandi’s victorious mood. However, he also directed his colleague to an article in *Il Popolo di Roma* speaking of “unlimited co-operation”,<sup>804</sup> and added that it was in both countries interest not to appear as overly close allies and that co-operation could for the time being “not go further than the questions of common interest at the League of Nations”.<sup>805</sup> The celebrated convergence of interest, however, did not last very long, and in March 1931 Rome discovered that its designated partner for an international action against France had been discreetly pursued a plan, which

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<sup>798</sup> Cf. C. R. von Frenzt, *A lesson forgotten: Minority protection under the League of Nations the case of the German minority in Poland, 1920-1934* (Münster, New York, 1999).

<sup>799</sup> Grandi to Mussolini, 2 Feb 1931, ASMAE, Archivio Dino Grandi, busta 26.

<sup>800</sup> Cf. D. Barlas and S. Güvenç, ‘Turkey and the Idea of a European Union during the Inter-war Years, 1923-39’, *Middle Eastern Studies*, 45, 3 (2009), pp. 425-446.

<sup>801</sup> DI Ginevra to MAE, 18 Jan 1931, ASMAE, Archivio Dino Grandi, busta 26.

<sup>802</sup> Grandi to [unidentifiable], 21 Jan 1931, ASMAE, Archivio Dino Grandi, busta 26.

<sup>803</sup> Meeting Grandi-Curtius, 25 Jan 1931, ASMAE, Archivio Dino Grandi, busta 26.

<sup>804</sup> *Ibid.*

<sup>805</sup> Grandi to Mussolini, 2 Feb 1931, ASMAE, Archivio Dino Grandi, busta 26.

put its own goals for Southeastern Europe under existential threat: the plan for a German-Austrian customs union.<sup>806</sup>

## ***2. Customs Unions – A Political Response to Economic Crisis***

Austria was the launching pad of every country's economic endeavour in Southeastern Europe during the interwar period.<sup>807</sup> Together with Czechoslovakia, Austria was the most industrialised country among the successor states of the former Austro-Hungarian Empire. Its businesses nurtured close economic ties with the region, and the banks worked as intermediaries of credit between the financial centres of the West and the debtors of the region.<sup>808</sup> Although the main protagonists of the project had held informal meetings dating back to 1927, strictly secret preparations accelerated with the outbreak of the crisis. The economic situation of Austria was especially grim, and the League stated that it was "bound to suffer more than any other country from the slump in trade between European States, who are forced by the economic crisis to withdraw into themselves".<sup>809</sup> In 1930, Hans Posse, one of the major supporters of the union, demonstrated the relevance of the project when he averred that, "making headway in the Central European area [...] seems to me to be at the moment Germany's chief problem in economic policy."<sup>810</sup> Posse's words indicate that already at the planning stage, the focus was beyond Austria and clearly concentrated on a large-scale German economic expansion into the region.

In order to prepare the implementation of the plan for the foreseeable storms of international opposition, the German government tried to focus the League's discussion on the economic advantages of customs unions as a means against the crisis. Already in autumn 1930 – when the publication of the German-Austrian project was still half a year away – Foreign Minister Julius Curtius spoke in front of the eleventh General Assembly about the "uneconomical situation" that some countries possess money and capital in abundance without the possibility to stimulate economic activities across borders. While customs unions in general were described as a solution to this problem, Curtius referred to his Austrian

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<sup>806</sup> Cf. Scarano, *Mussolini e la Repubblica di Weimar*, p. 531.

<sup>807</sup> Cf. Enderle, *Die ökonomischen und politischen Grundlagen*, p. 39; Ránki, *Economy and foreign policy*; P. Cuomo, *Il miraggio danubiano: Austria e Italia, politica ed economia, 1918-1936* (Milano, 2012).

<sup>808</sup> Cf. Banca d'Italia, 'Espansione commerciale della Germania verso i mercati Balcanici', 19 Sep 1931, ASBI, Carte Beneduce, n. 283.

<sup>809</sup> LON, 'Note by the Secretary-General', 16 May 1931, ASMAE, Carte Suvich, busta 1.

<sup>810</sup> Quoted in Kaiser, *Economic diplomacy*, p. 27.



colleague Johannes Schober, who had argued to start first with regional customs unions uniting economically less distinct countries.<sup>811</sup>

Despite the precautionary manoeuvres at the League, the news of the German-Austrian plan, which in March 1931 leaked out to the public even before the scheduled proclamation at the CEEU, landed like a bombshell.<sup>812</sup> The impact in Italy was so strong that the German admirers of the Duce feared long-term damage to the German-Italian relationship. Reich Chancellor Brüning had pursued the project for domestic political purposes as well. His minority government relied on the small, right-wing parties, and with the customs union Brüning intended to offer them a concession to their nationalistic claim on the smaller German-speaking state. However, the most extremist among the nationalistic movements, the NSDAP, showed no enthusiasm for the customs union. On the contrary, Giuseppe Renzetti reported that Hitler and other members of the NSDAP were outraged by the “bestial way” in which the government fished for voters among the nationalists. Hitler denied that either Germany or Austria would derive benefits from the customs union because “one does not sharpen a sword by uniting two which do not cut”. Instead, Germany should incorporate other, more suitable, countries within the customs union like Britain and Italy. Hitler warned against the Southeastern European direction of the customs union, and suggested that Germany should loosen its interest in this region in order not to risk rivalries with Fascist Italy under the admired Mussolini.<sup>813</sup>

South of the Alps, the proclamation of the customs union provoked immediate reactions. On 11 April 1931, an inter-ministerial commission was formed including government officials of the ministries of foreign affairs, corporations, agriculture and finance. Guido Jung, head of INE and Italy’s future finance minister, as well as Giuseppe De Michelis took the lead. The commission intended to clarify the consequences for the Italian economy of, firstly, a “small” customs union including only Germany and Austria; secondly, an Italian accession to this customs union; and lastly, of a wider union taking in Southeastern European countries. The outlook was all but gloomy. Already the “small” customs union was expected to be a significant threat to Italy’s economic interest. According to the INE, more than half of Italy’s total export to both countries was at stake due to their potential substitution by German

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<sup>811</sup> AA, confidential report on the XI Assembly (10 Sep-4 Oct 1930), 18 Oct 1930, PA-AA, Rom-Quirinal 802A.

<sup>812</sup> See Grandi to Mussolini, 17 May 1931, *Documenti Diplomatici Italiani* (DDI), series VII, vol. X, D, no. 272.

<sup>813</sup> Renzetti to Mussolini, 20 Nov 1931, BArch, NL 1235/10.

or Austrian goods.<sup>814</sup> In addition, further threats would occur from the harmonisation of tariff rates within the customs union, and the subsequent renegotiation of commercial treaties with Italy, in which it would face a negotiation partner backed with the bargaining chip of an even larger common market.<sup>815</sup>

There were very few arguments that put forward advantages for Italy's trade relations. De Michelis argued in a study on the customs union shortly after the inter-ministerial meeting that it was not to be taken for granted that the renegotiation of commercial treaties would inevitably worsen Italy's conditions.<sup>816</sup> Instead, he imagined that the union, in all probability facing heavy international opposition, had a strong interest in being recognised by one of the major European powers, and this trump card could help Italy in turning to its benefit the renegotiation of commercial contracts.<sup>817</sup>

The second option, Italy's accession to the customs union, offered according to the ministerial commission only very few benefits, if any at all. With regard to exports, some Italian goods were already not dutiable, as in the case of raw materials, or faced only small duty rates, as in the case of its major export article: agricultural goods. On the import side, in turn, Italy would need to tear down its "heavily protective" tariff barriers around its industrial production, thus risking that the German export of finished products, which already made up more than half of imported products, would have a free hand to gain market domination.<sup>818</sup> Ultimately, De Michelis feared, this would transform Italy into a "subsidiary economy" of Germany.<sup>819</sup>

Lastly, the third option, a "large" customs union uniting Germany and Austria with the states of Southeastern Europe and beyond, was considered by all Italian experts as nothing but great damage to Italy's foreign economic interest. The danger was twofold. Italy's industrial exports to Southeastern Europe could lose their competitiveness and its vital agricultural exports to Germany and Austria be squeezed out by cheaper products from the region.<sup>820</sup> The

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<sup>814</sup> INE estimated Italian exports under threat worth 85,600,000 RM (exports to Germany), and 32,972,000 Schilling (exports to Austria). See 'Relazione al capo di governo sulla commissione interministeriale', 11 Apr 1931, ACS, Fondo PCM, busta 1611.

<sup>815</sup> Ibid.

<sup>816</sup> G. De Michelis, 'L'accordo austro-germanico e un progetto d'unione italo-francese', 11 May 1931, ACS, SPdD-CO, busta 509061/1

<sup>817</sup> 'Considerazione sull'atteggiamento da adottare di fronte all'unione tedesco-austriaca', 10 Apr 1931, ACS, Fondo PCM busta 1611.

<sup>818</sup> 'Relazione al capo di governo sulla commissione interministeriale', 11 Apr 1931, ACS, Fondo PCM, busta 1611.

<sup>819</sup> G. De Michelis, 'L'accordo austro-germanico e un progetto d'unione italo-francese', 11 May 1931, ACS, SPdD-CO, busta 509061/1.

<sup>820</sup> 'Ripercussioni di eventuali unioni doganali fra stati della europa centro-orientale sull'esportazione italiana',

*Banca d'Italia* collected estimations of every Italian good exported to its best client Germany, and how it would stand the new competition by customs-free products from Southeastern Europe. The anticipated consequences were very serious.<sup>821</sup> In order to prevent this, an immediate reaction was deemed necessary. It seemed obvious that the established economic foreign policy of commercial contracts and financial investments faced clear limitations when it had to separate Southeastern European countries from the German-Austrian union. If Italy wanted to compete with such an initiative, the inter-ministerial commission proposed to the Italian government to undertake vigorous steps and to construct an “accurate and suitable customs union” itself.<sup>822</sup>

However, the ideal geographical range of such a counter-strike proved to be a matter of discussion. The question was whether Italy should strive for a customs union with all or only a few of the Southeastern European countries. In Romania, Virgil Madgearu, an influential economist and left-wing politician, dropped a hint that it would be interesting for Romania to become part of a customs union with Italy and Yugoslavia.<sup>823</sup> But the Italian government was undecided on how to react to this suggested coalition, as it feared political resistance by other European powers. Yugoslavia, too, was undecided. The German-Austrian project was considered a threat to Yugoslavian interest as it “would definitely clear paths for Germany towards the East”.<sup>824</sup> As well, Belgrade showed scepticism not only towards the Romanian suggestion, but also to the general idea of a customs union, as it expected that a union between an industrial economy and a producer of raw materials and agricultural goods was not beneficial for the latter in as much as it would predetermine the balance of trade and hinder development efforts.<sup>825</sup>

Given the resistance, a direct confrontation with the German expansion into Southeastern Europe would surely encounter, De Michelis developed a plan for an alternative, more feasible project: an Italian-French customs union. He argued that the French market would offer Italy better access to badly needed raw materials, less competition in industrial production and prospects for capital investment. Nonetheless, the French market was not even close to offering the same export opportunities for agricultural commodities as the German

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19 Sep 1931, Archivio Storico Banca d'Italia, Carte Beneduce, cart. 283.

<sup>821</sup> BDI, 'Importazioni Italiane in Germania e possibili ripercussioni di una eventuale unione doganale con l'austria ed altri paesi', Archivio Storico Banca d'Italia, Carte Beneduce, cart. 283.

<sup>822</sup> 'Considerazione sull' atteggiamento da adottare di fronte all'unione tedesco-austriaca', 10 Apr 1931, ACS, Fondo PCM busta 1611.

<sup>823</sup> LI Bucarest to MAE, 17 Apr 1931, ASMAE, Archivio Grandi, busta 22, fasc. 90, sottofasc. 33.

<sup>824</sup> LI Belgrado, 23 Apr 1931, ASMAE, Archivio Grandi, busta 22, fasc. 90, sottofasc. 33.

<sup>825</sup> 'Notizie sul probabile atteggiamento di alcuni paesi', n.d., ACS, Fondo PCM busta 1611.

market. Therefore, Di Michelis' argumentation could not disguise the character of the Italian-French customs union as a political counter-strike to the formation of the German-Austrian customs union, which hardly complied with Italy's established commercial orientation. In the background, the German market and its ties with the Italian economy always loomed, for instance, when De Michelis argued that a common Italian-French market would be big enough to force Germany to improve conditions for imports from Italy.<sup>826</sup>

The argument that the single market created by a customs union offered greater bargaining power was also brought forward in contemporary German research literature discussing the rise of European *Großwirtschaftsräume* (greater economic areas). In the description of the Italian *Großwirtschaftsraum*, which was considered as under construction mainly in the Middle East and the "Danube area", Krüger argued that Italy would act "short-sightedly" if it "helped to defraud the German-Austrian customs union". It would be through a strong German economy only that the markets of Romania and Hungary could be opened up as well to Italy's foreign trade. Even more, Italy could benefit not only from better market access in Southeastern Europe, but also from an extension of trade with Ukraine and the Caucasus. Otherwise, an "almighty Kremlin can still lead a weak Germany and Italy by the nose".<sup>827</sup>

While economic theorising suggested that an accession would be in Rome's interest, according to professionals governing Germany's foreign trade it was not appropriate to include Italy in the customs union. A representative of the Banca d'Italia in Germany reported that Carl Duisberg, head of the chemical giant *IG Farben*, argued strongly in favour of including France in the customs union thus expressing a popular view among German industrialists, which – in stark contrast to agricultural interest groups – were very fond of the customs union.<sup>828</sup> Whereas it seems that to German industrialists Italy's accession to the customs union played no big role, it was explicitly rejected by government trade experts. When Richard Schüller, head of the commercial department at the Austrian foreign ministry,<sup>829</sup> made the suggestion to remove all the customs barriers between Austria and Italy,<sup>830</sup> his German colleague Karl Ritter argued that customs difficulties would surely

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<sup>826</sup> G. De Michelis, 'L'accordo austro-germanico e un progetto d'unione italo-francese', 11 May 1931, ACS, SPdD-CO, busta 509061/1.

<sup>827</sup> K. Krüger, *Deutsche Großraumwirtschaft* (Hamburg, 1932), p. 65.

<sup>828</sup> Bdi Berlino, 28 Mar 1931, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 225.

<sup>829</sup> Cf. J. Nautz, ed., *Unterhändler des Vertrauens: Aus den nachgelassenen Schriften von Sektionschef Dr. Richard Schüller* (Wien, 1990).

<sup>830</sup> Austria had its highest surplus in trade with Italy. See Enderle, *Die ökonomischen und politischen Grundlagen*,

outweigh the opportunity to “win Italy for Geneva” (that is, the League of Nations), and ultimately put the entire project at risk. Moreover, Italy was considered inapt for the union for a variety of reasons, not economic ones alone. Ritter’s remark, that the “domestic and parliamentary” goals of the customs union could hardly be achieved together with Italy, unveiled a political agenda – emphatically denied on the public stage – which aimed at the *Anschluss* of Austria.<sup>831</sup>

In the end, it was due to the deterioration of the economic crisis following the collapse of the *Creditanstalt* and a joint European action that the project of the German-Austrian customs union failed. Berlin had sought to use the CEEU as a platform to defend the customs union by emphasising its purely economic character.<sup>832</sup> The institution was strategically selected because the economic experts at the CEEU repeatedly argued that a single European market created with a customs union would be the ultimate weapon against the crisis.<sup>833</sup> Yet, to the opponents of the project, the economic argumentation was nothing but window dressing. The governments of Britain, France, Czechoslovakia and Italy subscribed to a petition of the League’s council, which requested a legal analysis by the Permanent Court of International Justice.<sup>834</sup> For the League as guarantor of an international order, the essential question was whether or not the customs union violated Austria’s obligations under international law. Italy’s Foreign Minister Grandi asserted at the League’s Council that, “it is difficult to distinguish between economic and political questions”, thus rejecting the argument urged by the signatory states.<sup>835</sup> In addition, while legal examination was under way, France also used financial diplomacy to put the Austrian government under pressure as Vienna was in the aggravating economic crisis strongly dependent on foreign loans. Both attempts were successful, thus turning the project into a “complete failure”.<sup>836</sup>

Germany’s reputation was seriously damaged, not only on the international level, where desperately needed loans dried up,<sup>837</sup> but also in its relationship with Fascist Italy. For Grandi, the German venture had jeopardised “the fertile beginnings of a collaboration, which

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p. 19.

<sup>831</sup> Ritter (AA) to Schüller (Bundeskanzleramt Österreich), 30 Apr 1931, PA-AA, R240.889/1.

<sup>832</sup> Reichszentrale für Heimatdienst, ed., ‘Neuordnung im Donauraum. Um die Rettung Südost-Europas (Richtlinie Nr. 229)’, August 1932, PA-AA, R105.591; AI Londra, 31 Mar 1931, ASMAE, Archivio Dino Grandi, busta 28.

<sup>833</sup> CEEU, president of the Sub-Committee of Economic Experts to the president of the Co-Ordination Sub-Committee on Economic Questions, 29 Aug 1931, LON, R2910.

<sup>834</sup> Secretary-General to Permanent Court of International Justice, 19 May 1931, LON, R3004.

<sup>835</sup> LON, Sixty-third Session of the Council, 19 May 1931, LON, R3004.

<sup>836</sup> E. Kolb, *Die Weimarer Republik* (München, 2013), p. 139.

<sup>837</sup> See Feinstein, Temin and Toniolo, *The world economy*, p. 99.

the Italian government holds possible and useful for both countries”.<sup>838</sup> Also in Germany, Italy’s support for the petition at the international court caused anger. The German representative denounced the argumentation of the Italian appellant Scialoja as clear proof that the request for legal examination was nothing but a political manoeuvre.<sup>839</sup>

However, in spite of these disruptions, attempts at co-operation did not break down entirely. What kept them alive was certainly a shared opposition to the French influence in Southeastern Europe and, therewith functionally linked, a common goal for their work in the League’s organisations fighting the economic crisis. Ambassador Schubert argued that it was in Germany’s hands “to clear the shadow between Germany and Italy”.<sup>840</sup> When Reich Chancellor Brüning was given instructions for his voyage to Rome in August 1931, the customs union and the subsequent irritation had top priority. The official version read that the project had neither aimed at the political accession of Austria, nor prepared a commercial expansion into Southeastern Europe, which would harm Italian economic interest.<sup>841</sup>

Nevertheless, the customs union left a legacy of mistrust on the co-ordination over Southeastern Europe. The German embassy, for instance, reported in spring 1931 that Rome was preparing discretely its own version of a regional economic pact, which certainly had been boosted by the attempted customs union. While to Schubert, many of the details were unclear, he reported that the project generally foresaw trade stimulating measures between Italy, Austria and Hungary. He reassured the AA that it was not directed against Germany, but counteracted the French influence in the region.<sup>842</sup> His assessment was not quite adequate.

Simultaneously, an inter-ministerial reunion led by Dino Grandi united the “who’s who” of Italy’s foreign economic policy making to discuss an appropriate initiative. Grandi asked the experts to, “formulate an economic bloc which counterbalances the one contemplated by Germany”. De Michelis argued to conclude contracts with Austria and Hungary as quickly as possible, and Giuseppe Bottai, minister of corporations, suggested including Yugoslavia for the sake of the Italian industry. Overall, the Italian industry was given utmost importance in the formulation of the project, because Bonifacio Ciancarelli

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<sup>838</sup> MAE, 1 May 1931, ASMAE, Archivio Dino Grandi, busta 28.

<sup>839</sup> Reichskanzlei, ‘Aufzeichnung betreffend Scialoja’, 3 Aug 1931, BArch, R 43-I/81.

<sup>840</sup> DB Rom to AA, 24 Jun 1931, PA-AA, R105.641.

<sup>841</sup> Reichskanzlei, ‘Material für die Reise nach Rom’, 13 Aug 1931, BArch, R 43-I/81.

<sup>842</sup> DB Rom to AA, 15 May 1931, PA-AA, R240.910.

(MAE) insisted that he first consult the *Confederazione Nazionale delle Industrie* before initiating negotiations.<sup>843</sup>

Rome's attentive, yet suspicious appraisal of Germany's plans for Southeastern Europe continued when Berlin launched a new initiative for international assistance to Southeastern European economies in the summer of 1931. This time, international reservation and opposition should be prevented by carefully anticipating any argument against the project. The League's economic and financial organisations and the CEEU, whose initiatives for economic rapprochement had largely stalled, seemed to offer the opportunity to transform a German plan into an international plan. Italy, with its similar economic interest in Southeastern Europe and a prominent representation at the international organisations, was the given ally for this manoeuvre.

### ***3. Second Effort: Commercial Preferences***

While the prospects of the German-Austrian customs union worsened, Germany concluded commercial contracts with Romania (27 June 1931) and Hungary (18 July 1931), establishing preferential treatment of certain commercial goods.<sup>844</sup> In order to achieve international acceptance, the contracts tried to deviate as little as possible from the most-favoured-nation clause. Romania was granted a 50 per cent reduction of customs duties for its barley exports and a 60 per cent reduction for maize. The importance of these two commodities is highlighted by the fact that barley and maize exports made up roughly 80 per cent of Romania's total exports, with Germany buying up to 70 per cent of Romania's barley and 30 per cent of its maize. Berlin chose these two commodities not only because of domestic demand. As there were very few countries with a considerable interest in barley and maize exports to Germany, Berlin reckoned that for these commodities the exception to the MFN clause would be regarded by its other trading partners with "benevolent neutrality".<sup>845</sup>

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<sup>843</sup> 'Verbale della riunione tenutasi a Palazzo Chigi', 25 Mar 1931, ASMAE, Archivio Grandi, busta 22, fasc. 90, sottofasc. 33.

<sup>844</sup> Over the course of the world economic crisis, the instruments of customs unions quickly lost its popularity. Instead, it was expected that commercial contracts were more suitable to create economic areas. See H. Dreier, 'Wirtschaftsraum – Großraum – Lebensraum. Facetten eines belasteten Begriffs', in H. Dreier, ed., *Raum und Recht: Festschrift 600 Jahre Würzburger Juristenfakultät* (Berlin, 2002), pp. 47-84, 57.

<sup>845</sup> CEEU, co-ordination sub-committee on economic questions, 1 Sep 1931, LON, C.E.U.E./C.M.E.

Slightly different was the preferential treatment granted to Hungary. It reduced customs duties for Hungarian wheat by 35 per cent.<sup>846</sup> Unlike barley and maize, Germany's import of wheat did not come almost completely from Southeastern European countries. As Table 9 shows, it came mainly from overseas. Therefore, the wheat preference not only bore the potential to significantly change Germany's foreign trade, but also to cause opposition by major overseas trading partners enjoying MFN status. In addition, Berlin inserted in the German-Hungarian contract its intention to grant preferences on wheat to Romania, Yugoslavia and Bulgaria as well. Apart from this Southeastern European group, other countries were explicitly excluded from the possibility of asking for preferential treatment for their exports to Germany.<sup>847</sup>

*Table 9: Germany's wheat import 1928-1930*

From:	1928		1929		1930	
	Tons	(%)	Tons	(%)	Tons	(%)
Romania	4,213	0.1	11,070	0.4	24,200	2
Yugoslavia	3,034	0.1	6,227	0.3	7,790	0.6
Hungary	892	-	29,857	1.4	19,647	1.6
Argentina	766,975	30	967,300	48	335,420	30
US	499,012	20	230,230	11	180,850	16.5

Source: AA to various embassies, 6 Aug 1931, PA-AA, R118.374.

Of course, the offer to help the countries in crisis did not come without a call for reward. Both commercial contracts established that Romania and Hungary lowered a "considerable amount of [...] industrial tariffs".<sup>848</sup> In the Hungarian case, especially machinery exports potentially profited from lower customs duties. In order to prevent likely opposition from other states with industrial export interest in Southeastern Europe, the lowered tariff rates were not only granted to Germany, but to all states that had MFN status in Romania and Hungary. Therefore, the reward was, strictly speaking, no preferential treatment of Germany's industrial exports, but rather a general reduction of customs duties. Moreover,

<sup>846</sup> AA to various embassies, 6 Aug 1931, PA-AA, R118.374.

<sup>847</sup> Special Protocol of the German-Romanian contract, 29 Aug 1931, LON, C.E.U.E., vol. 277.

<sup>848</sup> Wiehl (AA) to various embassies, 6 Aug 1931, PA-AA, R118.382.



in order to comply with the League's requirements for preferences (laid out in the Stucki report), the contracts applied only for two years. The limited period should assure the international community that the German contracts did not represent a permanent deviation from the MFN clause, but only a legally and temporarily confined exception in order to tackle the worst consequences of the world economic crisis.<sup>849</sup>

With these precautions carefully built into the contracts, Berlin, Bucharest and Budapest set up a road map to seek international acceptance. They agreed to submit the contracts first to the "Co-ordination Sub-Committee on Economic Questions" of the CEEU. Through the Sub-Committee, the matter should be forwarded to the highest decision level of the CEEU. Finally, the CEEU should recommend the matter for decision at the twelfth Assembly of the League (7-29 September 1931).<sup>850</sup> Even though the contracts were quite limited in scope, the AA urged the German representatives at the international organisation to display them as the first stage of an act of European solidarity,<sup>851</sup> which would eventually lead to a "single European market".<sup>852</sup> In addition, the German government attempted to back the initiative at the international organisations by approaching the other potential big European importer of grain from Southeastern Europe: Fascist Italy.

Shortly before the meeting of the Sub-Committee in late August 1931, Italian Finance Minister Jung met in Berlin Economics Minister Ernst Trendelenburg, Karl Ritter from the AA and Clemens Lammers, representative of the German industry (RDI) and German delegate to CEEU's Sub-Committee of Economic Experts.<sup>853</sup> Lammers, who almost singlehandedly led the discussion, stated that immediate action in the crisis-shaken region was needed, and that the interests of Italy and Germany could correspond.<sup>854</sup> To find a way out of the crisis, he was convinced that some sort of economic-geographic reshaping of the region was inevitable. This statement made Jung suspicious because it seemed to him that the idea of a German-Austrian customs union, whose realisation had just failed not least because of Italy's opposition, was still alive in Lammers' thinking. Lammers tried to dispel these qualms by embedding the instrument of the customs union into a broader European context. He called on the reunion to refrain from condemning the instrument in general, but to judge each version of a customs union on the basis of the degree to which it would stimulate Europe's

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<sup>849</sup> AA to Secretary-General LON, 24 Aug 1931, PA-AA, R118.382.

<sup>850</sup> AA to various embassies, 8 Jul 1931, PA-AA, R118.374.

<sup>851</sup> Wiehl (AA), 27 Aug 1931, PA-AA, R118.382.

<sup>852</sup> DK Genf to LON, 6 Jan 1932, LON, R2917.

<sup>853</sup> DB Rom to AA, 11 Aug 1931, PA-AA, Rom-Quirinal Geheim 28.

<sup>854</sup> G. Jung, 'Rapporto sulla missione a Berlino', 24 Aug 1931, ASBI, Carte Beneduce, n. 283.

growth. Nonetheless, his argument could not convince Jung entirely. He mentioned with doubt Lammers' tight-lipped and evasive response to his question of what the members of a customs union could do to protect the "vitality of particular branches of industry, which secured political independence" of a member state.<sup>855</sup>

The second instrument suggested for the economic reshaping of the region, preferential treaties, was relatively less contaminated with mistrust. Jung expected that this instrument would also be able to support Italy's exports to Romania, where it faced heavy competition. The Italian adoption of preferential regimes was strongly supported by Lammers and Ritter, but this was not meant as an altruistic move to share the markets of Southeastern Europe. Firstly, Lammers articulated that Italy's given markets would lie in the "Near East" (thereby implying not to implement them in European countries belonging to the German area of interest). Secondly, Jung estimated that Germany was in the primarily seeking potential allies to support the international acceptance of its preferential contracts.

Jung considered it a cunning plan that Berlin granted preferential treatment for agricultural imports, while only asking in return for lower tariffs for every state possessing MFN status. The German industry had undergone massive rationalisation throughout the 1920s, a move that had significantly cut the costs of German goods. Consequently, Jung estimated that the German industry could be assured of its competitiveness, and become the greatest beneficiary once customs duties went down, even without asking for exclusive preferential treatment in Southeastern Europe. The Italian finance minister was not alone in his assessment. The *New York Times* wrote in an article on the preferences for Hungarian wheat that Germany is "apparently confident of her ability, on account of her proximity and the good-will she will enjoy, to compete with any other manufacturing nation in the Hungarian market".<sup>856</sup>

Jung certainly favoured the instrument of preferential regimes over customs unions. However, a system of open preferences to be acknowledged by all MFN parties still appeared risky for Italy. Especially from Argentina, Italy's major grain supplier and favourite market for Italian foreign investment, Jung feared retaliation in the form of commercial preferences between Argentina and the US.<sup>857</sup> Given the Italian concerns about overseas markets irritation, it was clear to the AA that Rome was far from unbridled in its enthusiasm for the preferences.

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<sup>855</sup> G. Jung, 'Rapporto sulla missione a Berlino', 24 Aug 1931, ASBI, Carte Beneduce, n. 283.

<sup>856</sup> 'Germany to favor Hungarian Wheat', *New York Times*, 20 Jul 1931.

<sup>857</sup> G. Jung, 'Rapporto sulla missione a Berlino', 24 Aug 1931, ASBI, Carte Beneduce, n. 283.

Yet, it still considered Italian opposition as unlikely because the contracts Germany concluded with Romania and Hungary left Italian foreign economic interest relatively untouched.<sup>858</sup> This evaluation turned out to be true when Italy openly backed the contracts in Geneva.<sup>859</sup>

The CEEU's Sub-Committee on Economic Questions took up the matter at its meeting starting 31 August 1931. In monitoring the recent international development, the Sub-Committee observed that there were actually three types of preferential systems currently under way. The first was the reduction of tariffs as foreseen in the contracts between Germany and Romania as well as Hungary. The second preferential system was detected in the contracts France had concluded recently with Hungary and Yugoslavia which foresaw the partial refund of tariff duties. Finally, the third preferential system was currently in the making between Italy, Austria and Hungary.<sup>860</sup> After comparing the three preferential systems the Sub-Committee stated that, "the agreement between Germany and Romania, already concluded, appeared to embody as completely as possible the conditions in regard to principle and the practical conditions recommended by the Committee on Cereals", which had initiated the League's support for preferential treatment. Therefore it would "constitute a model agreement" in the view of the organisation in search of a pan-European economy.<sup>861</sup>

While the German plan gained wide acceptance as best practice, it also faced opposition. The Czechoslovakian representative demanded preferences from Germany also for his country's barley exports, given that the commodity was regularly traded between the two countries. The Turkish representative, furthermore, argued that the restriction on a few types of grain was unfair and that his country's agricultural export (e.g. tobacco, raisins) should receive preferential treatment too.<sup>862</sup> Perhaps the stiffest opposition came from the USSR. Its representative argued that the USSR would constitute together with the Danube countries an entity which, "is now being artificially split up into two groups, one of which, consisting of all European countries [...] to be given preferential treatment, and the other, consisting only of the USSR, to be deprived of this advantage". The CEEU was accused of having "geographical leanings and would seem to desire to change the map of Europe". More to the point, the contracts were bluntly called an "economic war".<sup>863</sup>

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<sup>858</sup> AA, Report Wiehl, 27 Aug 1931, PA-AA, R118.382.

<sup>859</sup> 'Rinvio dell'accordo doganale tedesco romeno-ungarese', *Il Popolo di Roma*, 15 Nov 1931.

<sup>860</sup> For this system see below, chapter 7 on the Brocchi contracts.

<sup>861</sup> CEEU, Co-ordination Sub-Committee on Economic Questions, 1 Sep 1931, LON, C.E.U.E./C.M.E.

<sup>862</sup> AA, 'Aus der türkischen Presse', PA-AA, R118.375.

<sup>863</sup> CEEU, Co-ordination Sub-Committee on Economic Questions, third meeting, 1 Sep 1931, LON, R2912.

Nevertheless, at this point the German development of preferential contracts in accordance with the requirements of the League paid off. The pleas were turned down by several members of the Sub-Committee, who argued that none of the three was among the signatory states that had initiated the request for preferential treatment at the League. In the case of Czechoslovakia, Berlin could refer to the League's "Stucki Report", which associated Czechoslovakia with the countries having import requirements of grain (like Germany and Italy).<sup>864</sup> With regard to the Turkish claim, for the time being no other agricultural goods were considered for preferential treatment. As a first success for Germany, the Sub-Committee agreed to accept a statement prepared by Berlin's extended arm at the international organisation, Hans Posse, which acknowledged the preferential contracts, and requested a decision from the plenary CEEU.<sup>865</sup>

Within the same month, the preferential contracts successfully completed the institutional procedures. Both the CEEU and the Assembly of the League acknowledged that they complied with the principles laid out by the League of Nations,<sup>866</sup> and represented an instrument to reach – as the British government put it – “the ultimate goal [...], the widest possible collaboration of the nations of Europe in the sense of making Europe a single market”.<sup>867</sup> The positive judgment of the international organisations at hand, Berlin, Bucharest and Budapest planned to set the preferential contracts into force by 15 November 1931.<sup>868</sup> However, some countries outside Europe, quite relevant for the German export, started to combat the initiative in spite of the blessing it had received from the international organisation: Argentina and the US.

Buenos Aires from the beginning had expressed discomfort with the German plan to buy more wheat from other countries. Ritter (AA) had tried to quell the qualms by reassuring the Argentinian government that Germany would continue to import wheat from the Americas. Overall, he tried to talk down the German advantages and draw a heroic picture of Germany being the first to accept the sacrifice suggested by the international organisation to help the European and ultimately, the international economy. The effort Ritter put into this statement made sense, as he was aware that continuing opposition to an important trading partner with

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<sup>864</sup> AA to DG Prag, 28 Oct 1931, PA-AA, R118.375.

<sup>865</sup> CEEU, Co-ordination Sub-Committee on Economic Questions, third meeting, 1 Sep 1931, LON, R2912.

<sup>866</sup> LON, Second Committee, Economic Work of the League of Nations, 21 Sep 1931, LON, R2915.

<sup>867</sup> CEEU, 9 Jan 1932, LON, C.E.U.E., vol. 278.

<sup>868</sup> AA, 'Aufzeichnung zur Präferenzfrage', 1 Apr 1932, PA-AA, R106.131.

MFN status could bring an end to the “relief action”.<sup>869</sup> Italian Foreign Minister Dino Grandi hinted that Argentina would most likely stop opposing the initiative if the preferences were just labelled as quotas. However, for the German government this seemed neither technically suitable,<sup>870</sup> nor would it correspond to the League’s rules for a deviation from the MFN clause.

The US, in contrast, had long waited to comment on the preferential contracts, which had led some actors in Europe’s capitals to believe that it could eventually grant approval. The contrary occurred. The State Department made it clear that it would not accept a preferential regime linking only a few European countries. It would, however, reconsider its rejection in case the preferences for Southeastern Europe would be part of a larger Pan-European solution.<sup>871</sup>

Given the international resistance, frustration about the stalled initiative abounded in European capitals. Suggestions reached Berlin on how to react from Romania, but also from Yugoslavia, though as yet it did not have a preferential contract with Germany. Similar to the Italian suggestion, Bucharest and Belgrade argued to re-brand the preferences, for instance, by just calling them quotas. Yugoslav foreign ministry Vojislav Marinković argued that if “one superficially assured their [US] quotas, they would shut up”.<sup>872</sup> Nonetheless, the AA had to send out a word of warning to the states craving for preferences and pushing for implementation. As matters stood, the German-American commercial contract would prohibit the initiative, and Berlin was bound to respect this agreement.<sup>873</sup>

Opposition to the initiative emerged from a number of places, and not on the international stage alone. The RDI, a major interest group of German industry, filed an objection to the AA to scrap the contracts altogether. The RDI argued that it “had not supported the conclusion of preferential contracts from the outset”, and only stayed co-operative to comply with the German government’s request to pay consideration to the “political circumstances”. Now, however, Italian Finance Minister Guido Jung once-issued warning appeared to be justified. The US had started to establish a preferential regime to boost trade with Argentina by granting preferences to Argentinean cereals and US artificial fibres. To the RDI, it was clear that such a regime would derail the contracts with Hungary

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<sup>869</sup> Ritter (AA) to DG Buenos Aires, 29 Aug 1931, PA-AA, R118.374.

<sup>870</sup> DG Belgrad to AA, 22 Oct 1931, PA-AA, R118.375.

<sup>871</sup> US-Embassy Berlin to AA, 28 May 1932, PA-AA, R118.377.

<sup>872</sup> DG Belgrad to AA, 21 Jun 1932, PA-AA, R105.940.

<sup>873</sup> AA to German embassies in Southeastern Europe, 7 Jun 1932, PA-AA, R118.377.

and Romania.<sup>874</sup> Moreover, the RDI reckoned with “substantial frictions” not only in the relations with the US, but also with the USSR and important British Dominions. Prospects for expansion on the markets in Southeastern Europe were in this case clearly rejected in consideration of overseas markets.<sup>875</sup>

Certainly, the German government did not really want to sacrifice its economic interest with a so-called relief action for Southeastern Europe. When Pietro Stoppani, head of the League’s Economic Section, warned that only securing the sales of Southeastern European agricultural exporters with preferred access would not be enough, and that instead the price for cereals from the region should be raised above market level, the AA flatly rejected the idea. State Secretary Bernhard Wilhelm von Bülow, a leading official of the AA,<sup>876</sup> argued that if Germany had to pay grain prices above the usual market levels, the extra revenue would not be at the disposal of the countries in crisis, but immediately leave as repayments to the countries’ creditors. Then, “we (and Italy) would carry the main burden of expenses”, whereas the creditors were spared to make a sacrifice. Stoppani was according to Bülow’s judgement “visibly impressed” by how much the “the economic side of the Danube problem was interconnected with the financial”.<sup>877</sup>

Meanwhile, the financial prospects for the region darkened. Early in 1932, the League’s FC was particularly concerned with the situation in Hungary and Austria, where financial collapse with all the feared ramifications for international financial markets loomed large. In a letter to all the members of the FC (except for the German member Paul Kempner), Alexander Loveday warned that only in January, the Austrian national bank lost foreign exchange to the amount of 39 million Schilling, with the foreign exchange controls proving largely inefficient.<sup>878</sup> The broadly shared conviction that the problem was twofold, and the deteriorating situation in Austria and Hungary demanding an immediate solution, led to a British proposal which by no means persuaded. Broadly speaking, the proposal argued that the two layers of the problem – trade and finance – were connected in that in the countries of the region<sup>879</sup> the currencies became unstable. Therefore, the countries should form a “unified

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<sup>874</sup> RDI to RWM, 3 Oct 1931, PA-AA, R118.374.

<sup>875</sup> RDI to AA, 26 Oct 1931, PA-AA, R118.375.

<sup>876</sup> Krüger, *Die Außenpolitik*, pp. 512-515.

<sup>877</sup> Von Bülow to Ritter, 19 Apr 1932, PA-AA, R105.591.

<sup>878</sup> Loveday to Suvich, 6 Feb 1932, ASMAE, Carte Suvich, busta 13.

<sup>879</sup> The proposal covered the countries Austria, Czechoslovakia, Hungary, Yugoslavia and Romania.

economic area” with a customs union.<sup>880</sup> The sticking point was the intention to exclude any big European power from the economic area-in-the-making.

Berlin and Rome, which had always declared the particular importance of the German and the Italian markets for a relief action, felt harmed by the proposal and reacted with harsh opposition. *Il Popolo d'Italia* ridiculed the plan, stating that it would yoke the plough before the oxen.<sup>881</sup> Bülow deplored an “isolation of Southeastern Europe from German export, and thereby a severe damage of the German economy”. Moreover, he anticipated not only damage to his country’s economic interests, but also difficulties for the member states of customs union, which lacked an “absorptive industrial region”.<sup>882</sup> To Bülow, “a customs union requires a certain equilibrium between agricultural and industrial production”. Not even the accession of Germany was considered to be sufficient; it needed “another country with agricultural deficit, like Italy”. He was convinced of “a broad consistency of German and Italian interest”<sup>883</sup> in opposing the project. The MAE was pleased to acknowledge that the AA “is associating with the Italian argument”.<sup>884</sup> Although the proposal was submitted by Britain, both Rome and Berlin suspected the French government to be behind the plan, which would strive for a “reduction of the *Anschlussgefahr* [the threat of a German annexation of Austria] and Hungary’s revisionist policy”, according to the AA.<sup>885</sup>

Indeed, while Paris had supported initially the idea of preferential treatments, and even had started to conclude preferential contracts with Hungary and Yugoslavia on its own, in spring of 1932, under the new Prime Minister André Tardieu, it took a different view. His name eventually became associated with the plan of an economic bloc uniting the Southeastern European countries only.<sup>886</sup> It was designed to help the countries in crisis, without granting Germany and Italy better access for their industrial exports. Yet, still they were asked to contribute with their markets and stimulate growth by placing more orders of agricultural goods and livestock in the customs union.<sup>887</sup> The French government would complement the plan with financial stimulus.<sup>888</sup> To Ambassador Schubert, Tardieu was driven

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<sup>880</sup> Völckers to AA, 21 Jan 1932, PA-AA, R105.590.

<sup>881</sup> ‘Il convegno delle quattro Potenze per il salvataggio economico danubiano’, *Il Popolo d'Italia*, 8 Apr 1932.

<sup>882</sup> Von Bülow (AA), 25 Jan 1932, PA-AA, R105.590.

<sup>883</sup> AA, Report von Bülow, 29 Jan 1932, PA-AA, R105.590.

<sup>884</sup> AI Berlino to MAE, 16 Mar 1932, ASMAE, Archivio Grandi, busta 34.

<sup>885</sup> AA, ‘Aufzeichnung über den gegenwärtigen Stand der auf wirtschaftliche Zusammenschlüsse in Mittel- und Südosteuropa gerichteten Bestrebungen’, 4 Feb 1932, PA-AA, R105.590.

<sup>886</sup> Scarano, *Mussolini e la Repubblica di Weimar*, p. 388.

<sup>887</sup> AI Berlino to MAE, 20 Mar 1932, ASMAE, Archivio Grandi, busta 34.

<sup>888</sup> Posse to AA, 17 Mar 1932, PA-AA, R105.590.

by political considerations as well as “pushed by his bankers”, who feared for their loans granted to the region. Moreover, in this regard, “France was in concordance with England, where the local banking industry harboured the same fears”.<sup>889</sup> The League took up Tardieu’s suggestion, and much to the disdain of Italian Foreign Minister Grandi, especially its top official the Italian Pietro Stoppani took a large share in the design of the plan.<sup>890</sup>

The shared opposition to the Tardieu Plan stimulated co-operation between Germany and Italy.<sup>891</sup> According to Grandi, it even rendered irrelevant the still-existing frictions over the question of preferences.<sup>892</sup> Nevertheless, the Italian delegation in Geneva also warned that too firm an opposition could result in international isolation.<sup>893</sup> Hence, a cautious, if not to say veiled, approach was adopted.

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<sup>889</sup> DB Rom to AA, 25 Mar 1932, PA-AA, R105.591.

<sup>890</sup> Cuomo, ‘Trieste, l’Italia’, p. 62.

<sup>891</sup> Cf. Iaselli, *L’espansione economico-finanziaria*, p. 52; Elvert, *Mitteleuropa!*, p. 185.

<sup>892</sup> AI Berlino to MAE, 20 Mar 1932, ASMAE, Archivio Grandi, busta 34.

<sup>893</sup> Posse to AA, 17 Mar 1932, PA-AA, R105.590.



## **Chapter 7: From International Co-Ordination to Confrontational Bilateralism**

### *Introduction: Circumventing International Opposition*

Chapter 6 showed that both Berlin and Rome considered as decisive the economic and financial work of the League of Nations. Both governments send skilful delegates to Geneva, who held important positions in domestic policy, too. Thereby, and by intertwining the work of organisations closer associated with the respective national regime such as the International Institute of Agriculture, they created opportunities to turn a matter of national interest into a matter of international concern. The governments' dedication to the economic and financial work of the League was seconded by the corporate world, which likewise tried to establish links with the international organisation. Unfortunately, co-ordination over economic initiatives in Southeastern Europe seemed more difficult for Berlin and Rome than over more political issues, such as the position of German-speaking minorities in Poland or the accession of Turkey to the Commission of Enquiry for European Union.

Berlin was in 1931 forging ahead in Austria, thereby destroying the recent trust Rome had built up. The project of a German-Austrian customs union not only failed dramatically, it also left a sense of menace in Italy, whose elites feared exclusion from the markets of Southeastern Europe. The second commercial instrument suggested by Berlin as a way out of the economic crisis in Southeastern Europe was relatively less contaminated. Commercial preferences, strongly supported by the Southeastern European states, also appeared to Italian foreign trade experts as a suitable means to strengthen Italy's ties with Southeastern Europe. Even the League supported the system Germany had established with Romania and Hungary on condition of fulfilling a set of requirements. One unmet requirement, however, the positive acknowledgement by all countries possessing MFN-rights with regards to the markets establishing a preferential system, proved to be a lethal blow. The US and Argentine opposition stalled the German initiative.

Two broad lines developed out of the increasing German-Italian co-ordination and the growing antagonism with internationalist initiatives at the League, which constitute the following chapters. The first was a process of bilateral co-ordination before and during the economic conferences held through 1932 (London, Lausanne, Stresa), and the second, a

growing tendency by both governments to discretely orient their foreign economic policy vis-à-vis Southeastern Europe in bilateral terms, though still building on the instruments that were discussed previously on the international stage.

### ***1. A Common Stance at the International Economic Conferences?***

To overcome the dispute that the Tardieu Plan for Southeastern Europe had caused between France and Britain on the one side and Germany and Italy on the other, the British government invited the four powers to a conference to be held in London on 6-8 April 1932. The conference was intended to prepare for the launch of an economic bloc of the five “Danubian” states: Austria, Czechoslovakia, Hungary, Yugoslavia and Romania. Immediately after the invitations were sent, the Italian ambassador in Berlin, Luca Orsini, and Gerhard Köpke, head of the department for Southeastern Europe at the AA, agreed to support Bulgaria’s accession to the economic bloc.<sup>894</sup> Apparently, they hoped from the more loyal government in Sofia better representation at the negotiation table. Moreover, international backing came from the League’s Financial Committee, which had recommended including Bulgaria in the “Danubian” plans.<sup>895</sup>

The economic bloc of the five did not act in unanimity. The *Banca d’Italia* acquired information collected by *Deutsche Bank* on the relative degrees to which the “Danubian” capitals endorsed the Tardieu Plan. In Yugoslavia, for instance, the government showed “undivided enthusiasm”, whereas the Hungarian government was much more hesitant. Both governments acknowledged their important commercial flows with Germany and Italy, apparently without fears that the Tardieu Plan could cause frictions.<sup>896</sup> The perception in Prague, the capital of the most industrialised country of the bloc, was quite polarised. Right-wing activists agitated against the Tardieu Plan, which was accused of constituting not only a union of lower customs barriers, but also a union of “joint liability”, which would in the long run put Czechoslovakian economic interests at risk. The German embassy in Prague

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<sup>894</sup> Köpke (AA), 26 Mar 1932, PA-AA, R105.590.

<sup>895</sup> ‘Riunione speciale del Consiglio della Lega per l’esame del rapporto del Comitato finanziario’, *Il Popolo di Roma*, 3 Apr 1932.

<sup>896</sup> Deutsche Bank, ‘Wirtschaftliche Mitteilungen’, 31 Mar 1932, Archivio Storico Banca d’Italia, Fondo Studi, cart. 154, fasc. 1.

suggested triggering fears about being held responsible for other countries debts in the potential member states of the Tardieu-bloc.<sup>897</sup>

While undermining trust in the Tardieu Plan among the potential member countries was only a supporting action, the big showdown was scheduled for London. Shortly before the conference, Posse (RWM) and Wiehl (AA) met Anzilotti (MCorp) and Ciancarelli (MAE) in an effort to develop a joint strategy. Posse argued that France – out of political considerations – would try to maintain Austria and Hungary in the Little Entente, thereby cutting off the “newly created Danube area from Italian and German influence”. Britain, by contrast, was primarily concerned with, “safeguarding English assets invested in the Balkans”. Everything that hitherto had been attempted to improve the economic situation in Southeastern Europe was not much more than patchwork. Neither the instruments suggested by Germany and Italy, nor any of the League of Nations’ plans, carried prospects of significant change. Therefore, Posse claimed that the time had “come to overcome shyness”. Germany and Italy should strive for a real customs union together with Austria and Hungary, which would eventually be joined by other Southeastern European states.<sup>898</sup>

Ciancarelli, however, threw a wrench into Posse’s grand plan. He warned of the massive opposition that the plan would cause among Italy’s industrialists, fearing that the new common market would cut their competitiveness massively. They felt threatened by German industrial predominance, particularly in branches of rearmament, “a segment much larger than the actual weapon industry”, which also included branches such as energy, steel and chemical production.<sup>899</sup> Posse tried to allay the fears by holding out guarantees for Italian firms to become exclusive suppliers of the Italian market. Nonetheless, it appears that a shared answer to how the economic map of Europe should be redesigned was more difficult to find than agreeing on how it should certainly not look. Accordingly, the meeting concluded with the agreement merely to keep “closest contact” at the London Conference and beyond, and to bring down the Tardieu Plan.<sup>900</sup>

The London conference failed, and thus turned out to be a German-Italian success.<sup>901</sup> Both maintained their position that the Tardieu Plan was unsuitable to restore the “Danube-credit”; that is, to allow Southeastern European states to service their debt. The German

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<sup>897</sup> DB Prag to AA, 7 Apr 1932, PA-AA, R105.590.

<sup>898</sup> DB Rom confidential report to AA, 2 Apr 1932, PA-AA, R106.131.

<sup>899</sup> For Italian concerns regarding these branches see Chapter 4.

<sup>900</sup> DB Rom confidential report to AA, 2 Apr 1932, PA-AA, R106.131.

<sup>901</sup> ‘Der Todesstoß für die Londoner Konferenz’, *Deutsche Allgemeine Zeitung*, 8 Apr 1932.

delegation at the conference argued that the focus on the financial side of the problem was misleading. “The history of financial relief actions for Austria, Hungary, Bulgaria and Greece of the past ten years proves [...] if the credit is used up, the situation is still the same or rather worse, because the countries are then burdened with new principals and heavier interest burdens”. To ask from Italy and Germany to solve the ultimate problem of creating growth by opening up their markets for agricultural imports from the Tardieu-bloc, without asking for better access to Southeastern European markets in return, would be out of the question. Both countries would be equally in the straits of the world economic crisis. The German delegation reckoned that with the reduction of customs barriers within the Tardieu-bloc, Germany and Italy would lose up to 50 per cent of their current exports to competitors from the industrialised member states Austria and Czechoslovakia.<sup>902</sup> The argument was convincing. On the first day after the failed conference, the London based *Financial News* wondered in criticising the British foreign policy if it had been “really conceivable” to ask such a burden from Italy and Germany.<sup>903</sup> While apparently the City of London’s support for the Tardieu Plan vanished, Wall Street reacted with disappointment, and blamed Germany for prolonging the financial turmoil in Southeastern Europe.<sup>904</sup>

After Berlin and Rome achieved their short-term goal, the weeks following the London Conference illustrate the obvious lack of a shared German-Italian vision for Southeastern Europe. To no avail, the diplomatic missions repeatedly requested information on the promised memoranda for the economic re-organisation of the region. Both observed that London and especially Paris had lost interest in an immediate solution for the region.<sup>905</sup> This development caused a potential threat for Germany’s and Italy’s stance. After both had shattered the most recent attempt for a relief action, it was their turn to deliver a roadmap to recovery. Otherwise, they would provide an opportunity for their political opponents of the London conference to undermine the trust of the Southeastern European countries in Germany and Italy.<sup>906</sup>

Moreover, also in Germany and Italy investors had financial claims in Southeastern Europe that were threatened by defaults if no solution were to be found. In a meeting between

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<sup>902</sup> AA to various German embassies, 8 Apr 1932, PA-AA, R105.590. Similar in its evaluation of the conference is the report by representatives of the Italian national bank. See Banca d’Italia, ‘La conferenza danubiana di Londra mette in luce le profonde divergenze fra il punto di vista italo-tedesco e quello della Francia’, 8 Apr 1932, Archivio Storico Banca d’Italia, Carte Beneduce, cart. 364, fasc. 5.

<sup>903</sup> ‘Wanted – a british foreign policy’, *Financial News*, 9 Apr 1932.

<sup>904</sup> GK New York to AA, 9 Apr 1932, PA-AA, R105.590.

<sup>905</sup> DB Rom to AA, 16 May 1932, PA-AA, R30.426.

<sup>906</sup> Köpke (AA) to Schubert (DB Rom), 13 May 1932, PA-AA, R30.426.

Dino Grandi and Heinrich Brüning, the chancellor estimated that in case of defaults one billion Reichsmark of “national wealth” (*Volksvermögen*) would be lost, an amount which appeared surprisingly substantial to the Italian foreign minister.<sup>907</sup> For Italy, Grandi broadly quantified in a meeting with Ambassador Schubert the investments at stake at two billion Lire, with “very unpleasant” consequences in the aftermath of defaults. On the same occasion, Grandi reassured Schubert that he considered the position of the German government with regard to the “question of reparations” as “only just”.<sup>908</sup>

Thereby, he signalled a second field of German-Italian co-ordination at the international stage, which was still intertwined with the economic re-construction of Southeastern Europe. While the “Danube question” was left unanswered in spring 1932, the matter of reparations became highly topical. Several expert commissions concluded that Germany even after the end of the Hoover moratorium, which had put all payments deriving from war debts on hold, would not be able to meet its reparation liabilities. The question was due to be solved at the Lausanne Conference (16 June-9 July 1932), and the German government took the utmost care not to lose Rome’s “valuable support”.<sup>909</sup> The preparation of the conference coincided with the Italian desire for a payments agreement, which would grant a favourable position to Italian export interest in spite of the dire fiscal constraints of the German government (see Chapter 2). In May 1932, Ambassador Schubert had warned that, “from a political point of view, it is most undesirable if at the present moment, shortly before the conference of Lausanne, a trade war would break out between Germany and Italy”,<sup>910</sup> and in fact, the payments agreement was signed on the opening day the Lausanne Conference.

The conduct of the conference, however, was characterised by a development which was by no means in accordance with Italian aspirations and financial interests.<sup>911</sup> The German government achieved a suspension of all its reparation obligations. Italy now was obliged to abandon its claims for reparations while it was still heavily burdened with inter-allied debt deriving from warfare, and did not receive any support from the German government to alleviate this debt. But the more “general and lasting disappointment” occurred in the context of the “*vittoria tedesca*” over reparations; the German government had abandoned the common German-Italian position in the “Danube question”, and agreed with the French

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<sup>907</sup> DK Genf to AA, 19 Apr 1932, PA-AA, R105.591.

<sup>908</sup> DB Rom to AA, 16 May 1932, PA-AA, R30.426.

<sup>909</sup> Köpke (AA) to Schubert (DB Rom), 13 May 1932, PA-AA, R30.426.

<sup>910</sup> DB Rom to AA, 28 May 1932, PA-AA, R117.323.

<sup>911</sup> ‘Riunione interministeriale’, 4 Aug 1932, Archivio Storico Banca d’Italia, Carte Beneduce, cart. 343, fasc. 3.

legation on a proposal for Southeastern Europe.<sup>912</sup> Still in the course of the conference, the Italian delegation started to oppose the German-French proposal, which suggested a “collective convention” reuniting all major European stakeholders in the economic reconstruction of Southeastern Europe. With several manoeuvres, the Italian legation sabotaged the elaboration of a substantial roadmap.<sup>913</sup> Accordingly, the final act of the Lausanne Conference only relegated the task to the national governments, urging them to establish a “Central European Economic Commission”, which should develop a collective action.<sup>914</sup> The meeting of the commission was scheduled to be held in September 1932 at the Italian lake town of Stresa.<sup>915</sup>

To understand the deep Italian disappointment over Lausanne, it is necessary to explain why Fascist Italy was such a reliable partner for the German government fighting against reparations. After all, Italy as a victorious power of World War I benefited from German reparation payments. Nevertheless, as indicated in a preparatory document for the Stresa Conference, Italian political and economic elites were quite aware that the reparations and other forms of private debt in Germany put heavy pressure on the purchasing power of Italy’s long-standing, number-one customer. Italy’s exporters hoped, therefore, that once the debt burden was lifted, typical Italian export goods would see a growing demand in Germany. Furthermore, the Italian support against reparations could benefit Italian exports goods in that they had the potential to gain ‘politically correct’ popularity in Germany.

The argument that Italy would profit from greater purchasing power in Germany stimulated Italian support for the abolishment of reparations, but it also had implications for the situation in Southeastern Europe. Italian agricultural interest groups reckoned that debt relief would spur German industrial expansion in Southeastern Europe, and that the thereby-collected revenues would be used to order from Italy luxury items like wine and southern fruits. However, at the same time, the German government acknowledged that agricultural interests stood in opposition to Italian industrial interests, arguing against a “German industry relieved from the burden placed on it in consequence of Germany’s debt situation”, which

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<sup>912</sup> ‘Unklarer außenpolitischer Kurs. Italienische Enttäuschung über Lausanne’, *Berliner Börsenzeitung*, 10 Jul 1932.

<sup>913</sup> Anzilotti, for instance, stayed away from the scheduled workshops. See DB Rom to AA, 27 Jul 1932, PA-AA, Rom-Quirinal 946B.

<sup>914</sup> Tost (FC) to Kempner (FC), 21 Jul 1932, PA-AA, Rom-Quirinal 802A.

<sup>915</sup> This conference is not to be mistaken with the 1935 Stresa Conference that reunited representatives of Italy, France and Britain to establish a common front against Germany.

would rival the Italian manufacturers on the markets of Southeastern Europe.<sup>916</sup> This example highlights quite well the grave difficulty, if not impossibility, for the Italian economy to formulate a coherent standpoint vis-à-vis Germany.

Given the undesirable outcome of the Lausanne Conference, the Italian government elaborated its roadmap for the upcoming Stresa Conference. Every form of a “Danube-federation” even “if it includes other states (Italy, Germany, Switzerland, France, Poland)” was to be combated. Instead of multilateral European regimes, the Italian representatives should bring back to the table the idea of bilateral preferential treatment. Surprisingly, this approach reads almost like an adoption of the preferential treaties that in 1931 Germany had attempted with Hungary and Romania. The roadmap foresaw bilateral preferential arrangements to boost agricultural exports from Southeastern Europe, while the countries of the region lowered their import restrictions for half-finished and finished goods. The latter concession would be granted to every exporter enjoying MFN status, thus preventing acts of retaliation.<sup>917</sup> At an inter-ministerial reunion,<sup>918</sup> Ciancarelli emphasised that an advantage of bilateral regimes was that it allowed the union of countries that had a “possibility to get along”. With this comment, he was referring to the expectation – equally present in the German conception – that bilateral preferential regimes would manifest a certain centre-periphery rift between the manufacturer of half-finished and finished goods on the one side and the commodity exporter on the other side.<sup>919</sup>

With the disappointment over the German behaviour in Lausanne and a roadmap designed to undermine the conclusions drawn there for Southeastern Europe, it is no wonder that German officials seeking bilateral co-ordination before the Stresa Conference (5-20 September 1932) encountered difficulty. Without success, Schubert attempted to hear from Suvich about the planned Italian stance.<sup>920</sup> Only a few days prior to the start of the conference, a repeatedly delayed meeting of top officials could finally take place. As before at the London conference, the German delegation consisted of Wiehl (AA) and Posse (RWM) who met their Italian counterparts Ciancarelli (MAE) and Anzilotti (MCorp). This time, the Duce joined the

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<sup>916</sup> ‘Appunto sulla Partecipazione dell’Italia alla Conferenza per l’Europa centro orientale ed alla Conferenza Economica Finanziaria Mondiale’, 6 Aug 1932, Archivio Storico Banca d’Italia, Direttorio Azzolini, cart. 26, fasc. 1.

<sup>917</sup> ‘Appunto sulla Partecipazione dell’Italia alla Conferenza per l’Europa centro orientale ed alla Conferenza Economica Finanziaria Mondiale’, 6 Aug 1932, Archivio Storico Banca d’Italia, Direttorio Azzolini, cart. 26, fasc. 1.

<sup>918</sup> The meeting gathered representatives of the MAE, MFin, MCorp and the Banca d’Italia.

<sup>919</sup> ‘Riunione interministeriale’, 4 Aug 1932, Archivio Storico Banca d’Italia, Carte Beneduce, cart. 343, fasc. 3.

<sup>920</sup> DB Rom to AA, 26 Aug 1932, PA-AA, R118.369.

meeting. While it began with mutual assertions that the broad consensus reached with the London conference still existed, and that neither Germany nor Italy were willing to help Southeastern Europe only to allow the countries in crisis to pay interest to foreign holders of their debt, it eventually reached the point of substantial disagreement. The Italians categorically rejected any collective agreement, whereas the German legation argued that only with such agreements the US objection against regional economic blocs within Europe could be set aside.<sup>921</sup>

According to Ciancarelli, another difference concerned the evaluation of potential retaliations. He concluded that, “the idea of preferences is spreading over various areas of the world (South- and Central America, Ottawa, Britain-Argentina-Denmark, Baltic States, Belgian-Dutch agreement)”, and that this development would be “more dangerous for Italy than for Germany because of its substantial export interest overseas”. Posse acknowledged the rise of these economic blocs, and he argued for their inevitability, regardless of preferences for Southeastern Europe. Germany and Italy had to be interested in not being isolated, in Posse’s view. Ciancarelli nevertheless asserted that, “greater economic areas” (*Großwirtschaftsräume*) make more sense between complementary economies than between the “essentially equal economies of Germany and Italy” (a remark that was crossed out by the German editor of the meeting’s protocol).<sup>922</sup> Mussolini observed that, “it is always rather difficult to find an agreement when it comes to economic questions”.<sup>923</sup>

The Duce’s judgment was accurate not only with regard to bilateral German-Italian coordination, but also for the entire Stresa Conference. Its decisions did not provide the long-expected broad consensus on the best cure for the economic crisis in Southeastern Europe. Under the direction of French delegate Georges-Étienne Bonnet, a draft convention was elaborated that rather patched together the previous approaches: financial help and support for agricultural exports with preferences. All the European countries were meant to take part, and manifold were the single measures suggested to revive trade. Most of them were quite common and adhered to the League’s suggestion to replace instruments like foreign exchange controls with a more liberal foreign economic policy. “The re-valorisation of cereals”, however, was, according to the German delegation, the only really new and directly

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<sup>921</sup> DB Rom to AA, 1 Sep 1932, PA-AA, R118.369.

<sup>922</sup> AA, ‘Aufzeichnung über den Verlauf der Besprechungen mit der Italienischen Regierung’, 1 Sep 1932, PA-AA, R118.370.

<sup>923</sup> DB Rom to AA, 4 Sep 1932, PA-AA, R118.370.



applicable instrument.<sup>924</sup> Exact quotas stipulated what could be exported in which preferential conditions. Moreover, the Italian delegation suggested that the re-valorisation should be supported with a “monetary fund”<sup>925</sup> to be established with contributions from all European countries. The German delegation initially accepted this suggestion, and yet, over the course of the conference it repeatedly argued that Berlin’s current financial leeway would prevent it from contributing to the fund. With this argumentation, the German delegation saw a similar stance by the British government, and faced heavy opposition by most other participants who accused Germany of putting at risk the entire scheme. Nonetheless, the German delegation insisted on its lack of financial capabilities,<sup>926</sup> and achieved for Germany an exemption from contributing to the fund, provided it still opened its market for preferential access of Southeastern European grain.<sup>927</sup>

The German government’s contribution to the Stresa Conference can be labelled as half-hearted at best. Berlin’s approbation lasted as long as the notion of preferential treaties found international legitimacy, but any financial sacrifices were carefully avoided. Backing for the idea by the other potential big grain importer Italy was no longer needed. Moreover, considerations not to lose Italy’s support at the international stage were already in decline after the settlement of Germany’s reparations at the Lausanne Conference. The German authorities were well aware that under this development Germany’s reputation in Italy suffered. According to the AA, the Italian delegation in Stresa tried to be “part of every relief action”, and influence them to “prevent a strengthening of German and French influence” in Southeastern Europe.<sup>928</sup>

What both governments still shared was the conviction that practical results from the Stresa Conference were highly uncertain. For Suvich, the conference “had no chance of success” because – in addition to the Italian manoeuvres – London refrained from engaging in the continent’s affairs, and the member countries of the Southeastern European bloc remained in partisan deadlock.<sup>929</sup> The AA too proved to be rather sceptical about a quick

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<sup>924</sup> AA to various German embassies, 27 Sep 1932, PA-AA, R118.379.

<sup>925</sup> The idea of the fund appeared in several denominations (e.g. *fonds des normalisation*) and programmes, and was particularly present in the reform programs of the International Institute of Agriculture under the leadership of De Micheli. See, for instance, CEEE, Sub-Commission for Agricultural Credit, 20 Apr 1931, LON, C.E.U.E./C.A./P.V.

<sup>926</sup> Posse even requested that the convention be redrafted. In an earlier draft version, the convention lacked the German declaration. See Posse to Stoppani, 29 Sep 1932, LON, R2923.

<sup>927</sup> Conference de Stresa, ‘Process verbal’, 20 Sep 1932, LON, R2923.

<sup>928</sup> AA to various German embassies, 27 Sep 1932, PA-AA, R118.379.

<sup>929</sup> Suvich and Bianchi, *Memorie*, p. 96; For the Italian stance at the Stresa Conference see also Iaselli, *L’espansione economico-finanziaria*, p. 53.

implementation. Several steps had to be taken, and an acceptance of both the CEEU and the League of Nations was still due.<sup>930</sup> Meanwhile, the impetus to follow an international path in dealing with Southeastern Europe lost ground in Germany and Italy concurrently.

## ***2. Hiding from International Responsibility***

Simultaneous with the German exemption from contributing to the Stresa “monetary fund”, the German representatives at the League discreetly retreated from the international financial supervision of the countries in crisis. The manoeuvre was intended to take political advantage of national resentments against the League’s debt restructuring programmes in Southeastern Europe. It, moreover, paved the way for the bilateral economic expansion of Nazi Germany, which is discussed in Part III. To understand fully the tactical retreat between late 1932 and early 1933, it is necessary to take into account the previous work of the League’s financial supervision.

As already noted (see Chapter 5), the League supervised a series of loans to the successor states of the Austro-Hungarian and the Ottoman Empires. National budgets faced financial turmoil especially after the crash of the Austrian *Creditanstalt* in June 1931, and the debt repayment of Southeastern European states became a matter of international concern. The League’s Financial Committee (FC), presided over at the time by Mussolini’s long arm at the League Fulvio Suvich, gained in importance as it participated in many of the initiatives to secure international lending to the region. Shortly after the crash of the *Creditanstalt*, Arthur Salter, who had served in the 1920s as head of the economic and financial section of the League’s secretariat, and advised several governments on stabilising their currencies,<sup>931</sup> suggested that the FC should be empowered to grant loans to countries in crisis out of its own budget.<sup>932</sup> While the transformation into an organisation that resembled the International Monetary Fund was still a pipedream,<sup>933</sup> the competences of the FC were already significant. It did supervise the internationally granted loans, gathered information on national budgets and economies and recommended programmes to reduce deficits. What is more, with the financial crisis the League’s assistance in administering national budgets became known to

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<sup>930</sup> AA, Report Wiehl, 23 Nov 1932 PA-AA, R118.378.

<sup>931</sup> In particular the governments of Austria, Hungary, Greece and Bulgaria.

<sup>932</sup> Speech by Sir Arthur Salter, 23 Nov 1931, PA-AA, R118.478; For the assessment of the speech by the German member of the FC, see Paul A. Kempner to AA, 25 Sep 1931, PA-AA, R118.478.

<sup>933</sup> Cf. James, *The end of globalization*, p. 25.

the public. In Bulgaria, for instance, where the collaboration with the League surfaced only in 1932, it “had been hidden during six years from the public and even from most members of the Cabinet”.<sup>934</sup>

At its meeting in January 1932, President Fulvio Suvich instructed the FC to find a way out of the vicious cycle in which the countries in crisis were caught. Foreign exchange controls had served as an immediate countermeasure to prevent foreign exchange reserves from continuing to fall due to the depressed wholesale prices. However, the longer the controls were in force, the more pressure they put on trade. To find a way out, Suvich proclaimed that the primary concern of the FC should be “defending the currencies of the countries under its control” in order to prevent defaults on foreign debt.<sup>935</sup> Thereby, the FC faced a sometimes-opposing agenda in the capitals of Austria, Hungary, Bulgaria and Greece, where national governments asked for assistance by the FC to achieve relief from the servicing of their foreign debt in the form of new loans or internationally accepted moratoria.

For the FC, Austria and Greece constituted in spring 1932 “the two urgent cases”. In Greece, the deficit was growing due to an unfavourable development in the balance of payments as the invisible receipts from shipping, tourism and remittances were losing their significance. Thus, foreign exchange reserves continued to fall, and the Greek government felt compelled to ask the three governments represented on the International Financial Commission in Athens (France, Britain, Italy) for a suspension of the external sinking funds. Similarly, Austria had “already been compelled to arrange for a Stillhalte covering the principal of most of her banking debts”. Albeit inevitably, the arrangement further undermined the trust of international lenders and aggravated the difficulties in receiving foreign financial assistance necessary for structural reforms.

Thus, the FC attempted to collect loans among hesitant creditors on the condition that all the measures were accepted: “the League may suggest for assuring a sound administration of the public finances and of the National Bank”.<sup>936</sup> It was established that the amount of foreign exchange acquired with the assistance of the FC was on no account to be used to fill up gaps in the government’s regular budget. Instead, the national government was required to sell the foreign exchange to the central bank, where it was supported by an advisor delegated by the FC. The received amount in national currency was then to be channelled into major

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<sup>934</sup> LON to Norman Davis, 3 Feb 1932, Library of Congress, Norman H. Davis Papers, Box 34.

<sup>935</sup> Financial Committee, Report Suvich on session 11-22 Jan 1932, ASMAE, Carte Suvich, busta 33.

<sup>936</sup> Financial Committee, forty-fifth session, 24 Mar 1932, PA-AA, R118.479; ‘Fiscal aid favored for three nations’, *New York Times*, 23 Mar 1932.

public works, which ultimately should boost growth. For the FC it was clear that this programme would “strengthen the control of the League and would increase the power of the League’s representatives”.<sup>937</sup> Given the powerful position of the League’s representatives, it was potentially of great interest for governments of countries economically interested in Southeastern Europe to send delegates.

In the case of another applicant for League assistance, Bulgaria, tensions arose between the government and the central bank on the one side, both of which favoured a moratorium, and the FC militating against this solution on the other side. The situation was alarming because recently the balance of payments had conveyed a rising deficit that had to be covered by the treasury.<sup>938</sup> To get an accurate overview of public finances, the FC nominated the committee’s German member, Paul Kempner, to carry out a mission to Sofia. Kempner informed the AA that, “various creditors in France, England and other countries either have suggested this procedure to the concerned countries or support it”. In addition, he asked the AA if he should accept the nomination. Technically, he could legitimise a rejection of his nomination with work overload at his bank. However, he warned that this might undermine Germany’s influence at the FC. This would happen at a particularly inopportune moment because, according to Kempner’s judgment, the instrument of preferences was just about to gain acceptance at the FC.<sup>939</sup>

Kempner’s nomination was approved, and turned out to be successful in the eyes of German authorities. The German delegation in Sofia argued that since Germany is a League member, “it can only be right if we are well represented in its bodies, and in the FC this goal seems to be achieved”. While the work on the ground was considered a success, negotiations with creditors were still pending. The German delegation detected hopes in Sofia that Kempner’s expertise would bring advantages for Bulgaria in the negotiations with its creditors, which would ultimately benefit Germany’s position in Bulgaria.<sup>940</sup> Indeed, the numbers the delegation reported to the FC left some room for confidence in Bulgaria’s budget. The treasurer could dispose of unexpectedly high gold reserves of 1.5 billion Leva and an positive trade balance of 1.2 billion Leva for 1931.<sup>941</sup>

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<sup>937</sup> Financial Committee to the Council of the League, 24 Mar 1932, LON, Financial Committee, vol. 1296.

<sup>938</sup> Financial Committee, Report Suvich on session 11-22 Jan 1932, ASMAE, Carte Suvich, busta 33.

<sup>939</sup> Kempner to AA, 29 Jan 1932, PA-AA, R118.478.

<sup>940</sup> DG Sofia to AA, 15 Feb 1932, PA-AA, R118.478.

<sup>941</sup> Financial Committee, Report Suvich on session 11-22 Jan 1932, ASMAE, Carte Suvich, busta 33.

However, the hopes for a positive fiscal development remained unfulfilled, and by May 1932, another delegation of the FC had to travel to Sofia. This time, they were joined by Ernst Trendelenburg, state secretary in the RWM and under-secretary-general of the League, who insisted that he did not come as a representative of the FC. In view of the budgetary situation, the delegation called for energetic measures without delay because, “the state is spending on an average some 110 million Leva a month more than it receives”. Declining exports had not been accompanied by a parallel decline in imports.<sup>942</sup> As the FC’s evaluation of the Bulgarian budget turned more negative, the communication between Sofia and the international organisation became tenuous. The *Direction de la Dette Publique* (Sofia) deplored that it had not been involved in the compilation of the final report to the League, as up to this point it had been common practice. Moreover, it considered the critique of the report to be “very exaggerated”.<sup>943</sup>

In Romania, the relationship between the FC and the national government requesting technical assistance by the League in autumn 1932 was somewhat different, in that for the first time the request was not formulated in connection with applying for a foreign loan.<sup>944</sup> Instead, according to the AA, the Romanian government pursued the goal of “demonstrating to the French that in the long run they will not be able to finance their allies in the Balkans”.<sup>945</sup> Hence, the League’s operations touched on the cracks in the postwar order of Europe, which was challenged by Germany and Italy. The delegation sent to Bucharest consisted of a French, a British and an Italian League official and Paul Kempner. The experts detected stupendous grievances in public governance. Particularly striking was the ministers’ occupation with administrative detail. The finance minister, for instance, showed the delegation 220 inheritance tax matters on his table about which he personally was obliged to decide. Given this overload, he long ago had decided to work at home instead of in the ministry. Moreover, the administration of the region previously belonging to the Austro-Hungarian Empire still adhered to the then-known administrative tradition, thus shattering Romania into different administrative entities. While this anecdotal evidence served only to clarify the need for technical assistance, most of the delegation’s detailed account ascertained information on all segments of Romania’s economic administration. And this information, although it had been classified as secret, was not only reported to the FC, but via Kempner

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<sup>942</sup> Financial Committee to the Council of the League, 23 May 1933, LON, R4582.

<sup>943</sup> *Direction de la Dette Publique* (Sofia) to LON, 20 May 1933, LON, R4582.

<sup>944</sup> LON, ‘Advisory Technical Collaboration in Romania’, 28 Jan 1933, LON, R4574.

<sup>945</sup> AA, 17 Aug 1932, PA-AA, R118.482.

also to the AA.<sup>946</sup> It was at the disposal, then, of those institutions designing the plans for economic expansion into Southeastern Europe.

The January 1933 agreement between the Romanian government and the League implemented a far-reaching international supervision, which eventually triggered national resentments. The agreement provided for the instalment of several technical advisers to improve Romania's public governance. The League's Council was instructed to recommend an expert in fiscal matters, a treasury and budgetary expert, an audit and accountancy expert and a financial advisor responsible for co-ordinating the different international advisers within Romania's state mechanism.<sup>947</sup> The German representatives involved in the negotiations between the Romanian government and the FC attested that some of Romania's demands hardly complied with the agenda of the League. For instance, the Romanian government wanted to reduce the technical collaboration to three years, whereas the FC deemed five years necessary. Under-Secretary-General Trendelenburg recommended that the AA support the Romanian demands in spite of the current financial problems because, "Romania is at heart a beautiful and rich country", thereby addressing the country's vast natural resources (like crude oil).<sup>948</sup> In addition, the Romanian ambassador in Berlin had requested from the AA support for a financial supervision of the League that was "as sparing as possible". This request met with the approval of State Secretary Bernhard Wilhem von Bülow.<sup>949</sup> Consequently, a German representative took the matter up at the League's Council meeting and expressed the hopes of the German government that a form of co-operation would be found, "which involved no interference with Romania's sovereign rights".<sup>950</sup> Finally, the FC took up Kempner's suggestion to reduce the League's supervision to four years.<sup>951</sup>

At this point it appears that the League's work on international financial relations had fulfilled the needs of the AA. It had provided substantial information on the internal economic constitution of the countries in the vanguards of Germany's recent plans for economic expansion. Moreover, it had offered the opportunity to act in the tough negotiations as an honest broker, taking into consideration the creditor's interests in financial stability represented in the FC,<sup>952</sup> as well as the supervised countries' interests in retaining their

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<sup>946</sup> Kemperer to AA, 27 Oct 1932, PA-AA, R118.483.

<sup>947</sup> Financial Committee to the Council of the League, 27 Jan 1933, LON, R4574.

<sup>948</sup> Trendelenburg (LON) to Ritter (AA), 22 Dec 1932, PA-AA, R118.483.

<sup>949</sup> Von Bülow (AA) to Trendelenburg (LON), 18 Jan 1933, PA-AA, R118.483.

<sup>950</sup> LON, Minutes of the Council meeting on 28 Jan 1933, LON, R4574.

<sup>951</sup> LON to Norman Davis, 3 Feb 1932, Library of Congress, Norman H. Davis Papers, Box 34.

<sup>952</sup> Von Bülow (AA) to Trendelenburg (LON), 18 Jan 1933, PA-AA, R118.483.

national sovereignty. From then on, however, being a member of an institution whose proposed reforms embraced many unpopular measures like harsh government budget cuts carried the risk of losing this barely secured position in the region. Representatives of the MWT, a lobby group of Germany's big business, returned from a research mission to Yugoslavia and Romania in November 1932 doubting "if with regard to German interest, [Germany] should participate in the commissions for the improvement of finances in Southeastern Europe". Should it come to it, Berlin would have a "shared moral responsibility" for measures perceived in the crisis-torn countries "as intolerable pressure".<sup>953</sup>

Accordingly, Ritter told Trendelenburg that the AA does not comply with Trendelenburg's suggestion to support the work of the League in Southeastern Europe with additional human resources. If the work of the League proceeded as usual then the current German representatives could remain in office, taking due care, however, that they acted as members of the League and not as representatives of the German government. If the relationship between the international organisation and the debtor countries deteriorated, however, Germany's goal would "not automatically and necessarily correspond with League policies", argued Ritter. Therefore, the government "would not like German representatives to be part of the sanctions of the League".<sup>954</sup> State Secretary von Bülow legitimised this step in a letter to Trendelenburg in that Germany has "suffered enough under foreign control and should generally strive to put up resistance against an all too strong desire to control by a few other governments and the Secretariat of the League".<sup>955</sup>

In Geneva, the gradual German withdrawal was met with discomfort and attempts at curtailment.<sup>956</sup> It was feared that without German participation the reform programmes would appear as of a "merely inter-allied character". Moreover, Germany possessed the biggest market for Southeastern European goods and hence was an indispensable part of every regional economic plan. German participation, for instance, was demanded for the nomination of advisers to be sent to Romania.<sup>957</sup> Moreover, for Trendelenburg, it was clear that when Secretary-General Avenol asked him in March 1933 to lead a delegation to Bulgaria, where tensions rose over the government's plan for a moratorium on its foreign debt, he could hardly

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<sup>953</sup> MWT to von Bülow (AA), 2 Nov 1932, PA-AA, R243.085.

<sup>954</sup> Ritter (AA) to Trendelenburg (LON), 9 Jan 1933, PA-AA, R118.483.

<sup>955</sup> Von Bülow (AA) to Trendelenburg (LON), 18 Jan 1933, PA-AA, R118.483.

<sup>956</sup> The League of Nations, and particularly Montague Norman, who as governor of the Bank of England, influenced significantly the work of the Financial Committee, especially put faith in Hjalmar Schacht. See Polanyi, *The great transformation*, p. 245. For Montague Norman and the League see P. Einzig, *Montagu Norman: A study in financial statesmanship* (London, New York, 2012; reprint 1932), p. 67.

<sup>957</sup> DK Genf to AA, 26 Jan 1933, PA-AA, R118.483.

refuse. Yet, he used his acceptance to legitimise the fact that Germany did not replace Kempner, who officially declared that he was tied up with his business and could not take up his assigned position as representative for Bulgaria.<sup>958</sup> Moreover, upon his arrival in Sofia, Trendelenburg declared that he did not come as part of the League delegation (consisting of French, Italian and British officials), but “only for personal information”.<sup>959</sup> As is further analysed in Part III, Bulgaria played a special role for Nazi Germany, and came more under economic influence than any other country in the region.

Although the German standpoint caused much disagreement, it was implicitly backed by the mastermind of Italy’s international financial relations and financial expert at the League, Alberto Beneduce.<sup>960</sup> He too condemned the ever-growing diffusion of FC competencies. While the FC’s technical assistance had initially only dealt with the budget, it subsequently spread over economic and monetary matters. Therewith, the FC would assume a responsibility which it hardly could fulfil, argued Beneduce.<sup>961</sup>

The withdrawal of Nazi Germany went on, and Kempner also retreated from the mission the FC sent out to Greece. There, the German finance ministry (RFM) expected negotiations to be especially lengthy, as the Greek government remained steadfast with regard to the raising and transfer of funds to service its debt. The dimension of the Greek case is highlighted in that the FC, in addition to officials among its ranks, also nominated representatives from the League’s secretariat and with Royall Tyler even an American expert.<sup>962</sup> The German delegation in Athens assessed that, “it would be in Germany’s interest [...] if the German member of the Financial Committee could adopt a welcoming attitude towards Greek necessities and requests”.<sup>963</sup> Kempner then declared his intention to bring to bear suggestions from the German legation in Athens at the FC,<sup>964</sup> but apart from that, the AA and the RFN instructed him to reduce participation in the assemblies of the FC. Moreover, he was to show restraint over the question of what the FC could contribute to the world economic conference to be held in London in June 1933.<sup>965</sup>

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<sup>958</sup> AA, 25 Mar 1933, PA-AA, R118.484.

<sup>959</sup> DG Sofia to AA, 21 Apr 1933, PA-AA, R118.484.

<sup>960</sup> Beneduce joined occasionally the FC as an outside expert. See, for instance, Réunion Comité Financier et de certaines experts gouvernementaux, 4 Jun 1932, LON, Financial Committee, 1296.

<sup>961</sup> AA to various embassies, 10 May 1932, PA-AA, R105.502.

<sup>962</sup> DK Genf to AA, 4 May 1933, PA-AA, R118.484.

<sup>963</sup> AA, ‘Streng vertrauliche Aufzeichnung zu Punkt 2 der Tagesordnung für die XIV- Bundesversammlung des VB’, 2 Sep 1933, PA-AA, R118.485.

<sup>964</sup> DK Genf to AA, 4 May 1933, PA-AA, R118.484.

<sup>965</sup> RFM, 30 May 1933, PA-AA, R118.484.



In conclusion, the tactical retreat from the League's financial supervision foreshadowed the withdrawal of Nazi Germany from the League in November 1933. Looking back, the AA described this step as logical because the work of the League was considered to be ailing since the beginning of 1933.<sup>966</sup> After the climax of co-operation with the economic and financial organisations of the League over the question of preferences for Southeastern Europe, the League quickly lost relevance when its work spelled, instead of opportunities for commercial expansion, tensions with the people of Southeastern European over questions of debt and payments. Subsequently, the relationship was completely cut, and attempts by League officials to revive Nazi Germany's collaboration at least with the EFO failed.

The strategy of Fascist Italy differed slightly in this regard. It continued to participate in the League even through its aggressive war on Ethiopia, only to quit in 1937 when the contradictions with the international organisation founded to guarantee global peace became too strong. Even the most conciliatory members of the League had to acknowledge that the "entrenchment of Italian and German economic nationalist and imperialist ambitions had proven beyond the EFO's means".<sup>967</sup>

Some of the strategic elements that characterised Germany's relationship with the League during the phase of its tactical retreat were also applied by Italian representatives. For instance, like the German officials Kempner and Trendelenburg, Suvich used the missions he undertook as president of the FC to the countries in crisis to acquire information for his government. In the case of an inquiry in Hungary, he acted openly in the interest of Italian exporters.<sup>968</sup> When the FC established its programme for financial reforms to solve the conflict "between the creditors and the Hungarian Government",<sup>969</sup> the relationship between the latter and Rome was characterised by the same secret consultations as those that took place between the governments of Germany and Bulgaria. Budapest emphatically urged Rome to place an Italian League official at the delegation dealing with Hungarian debt. Moreover, it warned Rome not to risk the good reputation of Italy's top officials Stoppani and Anzilotti with an involvement in the matter.<sup>970</sup> As in the case of Austria, Suvich was asked to use his affiliation with the FC to solve a problem with the Italian-Austrian railway company *Danube-Save-Adriatique*. Due to the financial crisis in Austria, contributions from the

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<sup>966</sup> AA to embassies, 11 Nov 1933, PA-AA, Rom-Quirinal 802A.

<sup>967</sup> See Clavin, *Securing the world economy*, p. 157.

<sup>968</sup> 'Interessi degli esportatori italiani in Ungheria', n.d., ASMAE, Carte Suvich, Busta 3.

<sup>969</sup> MFin to MAE, 20 Aug 1932, ASMAE, Società delle Nazioni, busta 79.

<sup>970</sup> LI Budapest to MAE, 27 Aug 1931, ASMAE, Società delle Nazioni, busta 79.

Austrian side had been delayed and subsequently caused “huge difficulties” for the company.<sup>971</sup>

The cases of Hungary and Austria are crucial to understand Italy’s foreign economic policy in Southeastern Europe. Along with the political elite in Hungary, Fascist Italy shared a firm belief of lost national homeland through the peace contracts after World War I. The independent state of Austria, on the other hand, was to be supported in order to prevent a much-feared *Anschluss* to Germany. The support for Austria came in various forms and was perceived in Germany with mistrust. When the FC elaborated an extension of credit for Austria, the German member Kempner opposed the measure, and the *Vossische Zeitung*, as a liberal mouthpiece far away from the forefront of German claims on Austria, wrote that, “we would like to support Austria [...] but we would refuse to grant indirect financial aid to the aggressor in Rome and his Viennese apprentice”.<sup>972</sup> As the following chapter shows, Rome organised in the slipstream of the League’s discussion on preferences its own version of bilateral preferential contracts with Hungary and Austria. These contracts not only triggered rivalries with Nazi Germany in Southeastern Europe, but would also serve as an institutional role model.

### ***3. Hidden Preferences: The Brocchi Contracts***

The previous analysis of the relief actions for Southeastern Europe revealed that Fascist Italy adopted quite an ambiguous position with regard to the commercial preferences for Southeastern European exports. Initially, after the plan had been added to the international agenda at the Warsaw agrarian conference in 1930, Italy remained rather aloof. This changed when bilateral commercial preferences could serve Rome’s initiative to sabotage the multilateral plan for Southeastern Europe as envisaged by the Stresa Conference in 1932. However, although the attitude changed, the major argument against preferences remained the same: the fear of retaliation harming Italy’s still-significant economic interest in overseas markets (see Table 10). As such, an ideal version of a preferential system for Italy would consist of secretly granted benefits, which would not cause any interference with the MFN status of third-party countries. The template for such a system was found in the negotiation of a new commercial contract between Austria and Hungary.

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<sup>971</sup> M. Fall (President Danube-Save-Adriatique) to Ciancarelli, 26 Apr 1932, ASMAE, Carte Suvich, busta 13.

<sup>972</sup> ‘Paris ratifiziert Völkerbundanleihe’, *Vossische Zeitung*, 27 Dec 1932.

Table 10: Share of Italy's major overseas trading partners (percentage quotas of total trade)

	1928	1929	1930	1931	1932	1933
Import from US	17.6	16.1	14.1	11.2	13.4	15.0
Export to US	10.7	11.8	10.8	10.1	9.3	8.8
Import from Argentina	8.4	6.2	4.0	4.8	4.1	3.0
Export to Argentina	7.9	7.5	6.8	8.0	5.5	6.2

Source: G. Federico, *Il commercio estero Italiano: 1862-1950* (Roma, 2011), p. 126-131.

As a consequence of the German-Austrian customs union, Austria had cancelled several commercial contracts, and renegotiations with its trading partners became necessary. In the negotiations with Hungary in summer 1931, the two countries sharing the firm conviction that the remapping of Europe after World War I had destroyed their established economic network developed a scheme of indirect preferences. They mutually granted favourable export credit rates for certain goods specified in import quotas. Thereby, they rendered trading between their countries more attractive as the interest rate was lowered to 2 per cent (whereas more than 10 per cent was usual in trading with other countries). To finance the scheme, the import quotas granted to each other were designed in that the revenues from customs duties offset the expenditure for the more favourable loans. The advantage was that contrary to customs preferences, those benefits did not have to be offered to all trading partners with MFN status. While at first only the export of a few products should be supported with cheaper credit, it was soon enlarged to a series of agricultural goods in Hungary and manufactured goods in Austria.<sup>973</sup> The government in Budapest appeared to be a driving force behind this preferential scheme. It did not stop with implementing it in Austria, but also introduced it to Rome, where it was eagerly taken up.

Subsequently, Italy secretly negotiated in spring 1931 with Hungary and Austria a scheme of export credit preferences.<sup>974</sup> As early as summer 1930, the Italian government had received calls for political collaboration combined with requests for financial assistance from

<sup>973</sup> DG Wien to AA, 15 Jun 1931, PA-AA, R240.889/1.

<sup>974</sup> As a result of the secret proceedings, the analysis is slightly biased in sources from German institutions. According to the German legation in Vienna, sources were acquired confidentially via informants in the Austrian federal chancellery and the ministry for trade and traffic; see DG Wien to AA, 17 Oct 1933, PA-AA, R240.910. Yet, the biased composition of the documentation is also necessary for the goal of this and the following chapter, which analyse the learning process leading to an adaptation of Italian plans by Nazi Germany. Moreover, the description of the tripartite contracts from an Austrian-Italian perspective is included already in an unpublished dissertation; see Enderle, *Die ökonomischen und politischen Grundlagen*.

the crises-stricken governments in Vienna and Budapest. However, Foreign Minister Grandi, while he was travelling at the time the Danubian capitals, asked himself “if we are really in the position to resolve it, especially when already our similar action in Albania is slowed down because of a lack of means”.<sup>975</sup> Then, as has been shown above, the proposal of the German-Austrian customs union alarmed the entire Italian administration and fostered the disposition to look out for new opportunities to connect Southeastern Europe with Italy.<sup>976</sup> The Hungarian suggestion of 1931 allowed the fascist government to support its closest allies in the region in their fight against the downfall of exports at – ideally – almost no cost. On the Italian side, the Triestian Iginò Brocchi, state counselor at the ministry of foreign affairs, became the mastermind behind the negotiations of the tripartite agreement.<sup>977</sup> It was also Brocchi who gave his name to the first fruits that ripened from these negotiations: the Brocchi contracts.<sup>978</sup>

The application of the Brocchi contracts was fraught with difficulties, as it was kept confidential and required a complex system of certifications that also rendered it quite opaque to its participants. According to a major Italian business representative, Alberto Pirelli, the confidentiality was intended to forestall repercussions for Italy’s trade interests in other countries.<sup>979</sup> In the sceptical judgment of Ritter (AA), who merely relied on leaked information by the Austrian administration, for each and every trade operation the participants had to acquire 18 permissions. Nevertheless, in spite of foreseeable troubles this would cause for the flow of trade, Ritter argued that the system, “if it finds acceptance in Europe”, could be “applied by Germany especially with the Southeastern countries and Italy”.<sup>980</sup>

Similar to the strategy the governments of Germany, Romania and Hungary adopted for their preferential contracts in 1931, the Italian government tested the possibility of getting League of Nations’ approval for the Brocchi contracts. Giuseppe De Michelis presented the

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<sup>975</sup> Dino Grandi, report on voyage to Budapest and Vienna, 7-17 Jun 1930, ASMAE, Archivio Dino Grandi, busta 26. See also Grandi to Ambassadors Arlotto (Budapest) and Auriti (Vienna), 28 May 1930, DDI, 1922-1935, series IX, No. 63.

<sup>976</sup> MAE, ‘Verbale della Seduta Interministeriale Tenutasi a Palazzo Chigi’, 11 Apr 1931, ASMAE, Archivio Grandi, busta 22, fasc. 90, sottofasc. 33; Cf. Scarano, *Mussolini e la Repubblica di Weimar*, pp. 261-273.

<sup>977</sup> A biography of Iginò Brocchi is provided in the published inventory of his private archive. See Archivio di Stato di Trieste, ed., *Inventario dell’Archivio di Iginò Brocchi 1914-1931* (Trieste, 2000).

<sup>978</sup> Sometimes the sources refer to the Brocchi contracts as the “tripartite contracts” or “Semmering contracts”, after the place of signature in Austria.

<sup>979</sup> De Bellis (MAE), 23 Aug 1930, DDI, series IX, no. 63. Pirelli was one of the first Italian multinationals; cf. A. Montenegro, ‘Die Entwicklung eines multinationalen Unternehmens in den zwanziger Jahren. Die Societa Italiana Pirelli’, in Schröter, *Politik, Wirtschaft und internationale Beziehungen*, pp. 149-171.

<sup>980</sup> AA (Ritter), ‘Die österreichisch – ungarisch – italienischen sogenannten Dreiecks-Verträge’, n.d. [presumably August 1931], BArch, R 43-I/81.

scheme as a means of helping the countries in crisis at a meeting of the agrarian committee of the CEEU in Geneva, adding that Italy was against any form of open preferences. However, according to Karl Ritter, the scheme met with severe criticism by delegates from Switzerland, the Netherlands and especially France who denounced it as “hidden preferences”, which ought to be ruled out.<sup>981</sup> In addition to these member countries of the League, the US-Department of Commerce (DOC) argued that the scheme subsidised grain exports in Hungary. One wheat exporting company based in the US allegedly faced losses of 70 per cent and requested an intervention of the DOC in Europe.<sup>982</sup>

In spite of the criticism brought forward, different sub-committees of the CEEU did contemplate the Brocchi contracts as one of several types of preferential systems suitable to stimulate ailing prices in Southeastern Europe. Although in a meeting of the Sub-Committee on Economic Questions, the German contracts with Romania and Hungary were still considered as best practice,<sup>983</sup> the Brocchi contracts supported the argument – widely shared among the experts – that custom duties were not the only possible arena for preferences. They could, as the French representative at the CEEU Francois-Poncet, pointed out, also comprise transport facilitations or financing on advantageous terms.<sup>984</sup> Even Secretary-General Avenol acknowledged in a meeting with Stoppani that the Brocchi contracts were an economic relief action. Nevertheless, Avenol thus considered the contracts insufficient in range (as they only included Austria and Hungary), suitable to create political mistrust and ineffective because they could create difficulties for the Hungarian service of debt.<sup>985</sup>

Once again the League faced the central dilemma of its economic and financial work in the Great Depression. While it could not ignore certain deviations from the MFN clause in the ongoing development, at the same time it tried to keep a liberal and multilateral approach to the international economy.<sup>986</sup> This dilemma resulted of course from the opposing conceptions at different national levels, which the League tried to bring into accord. Avenol and Stoppani, for instance, attempted to convince De Michelis that the plan brought forward

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<sup>981</sup> AA (Ritter), ‘Die österreichisch – ungarisch – italienischen sogenannten Dreiecks-Verträge’, n.d. [presumably August 1931], BArch, R 43-I/81.

<sup>982</sup> DB Washington to AA, 30 Sep 1931, PA-AA, R118.374.

<sup>983</sup> CEEU, Co-Ordination Sub-committee on Economic Questions, 1 Sep 1931, LON, C.E.U.E./C.M.E.

<sup>984</sup> CEEU, Committee to study the problem of the export of future harvest surpluses of cereals, 26-28 Feb 1931, LON, C.E.U.E., vol. 281.

<sup>985</sup> Rosso to Grandi, 27 Feb 1932, ASMAE, Archivio Grandi, busta 34.

<sup>986</sup> The Economic Committee concluded that, “it is true that the most-favoured-nation clause should continue to govern commercial relations and should be maintained as a general rule; but the considerable modifications (apart from exceptional measures adopted in times of crisis) which the most-favoured-nation clause has now undergone should not be overlooked”. See Economic Committee, 7 Apr 1933, LON, R4402.

by French Prime Minister Tardieu in 1932, which they considered a “realistic vision”, would possibly blend in with the Brocchi contracts.<sup>987</sup> However, what had started as an attempt to keep Italy at the negotiation table in Geneva also would have reduced significantly the means for political leverage inherent in the Brocchi contracts.

Therefore, according to Grandi, the Tardieu Plan triggered rather a bilateral extension instead of a multilateral integration of the Brocchi contracts.<sup>988</sup> The system was enlarged, and Fascist Italy signed new contracts with Austria and Hungary in February 1932. However, the contracts providing transport and financing facilitations still bore evidence of the League’s proposals on how to set preferences into practice without harming the MFN clause. Two financing institutes were established, the *Société Italo-Autrichienne pour faciliter les crédits à l’Exportation* with branches in Milan and Vienna,<sup>989</sup> and the *Società Anonima Italo-Ungherese per Facilitazione di Credito all’Estero* with branches in Milan and Budapest. The share capital of the two institutes was held by the three big Italian banks (*Banca Commerciale Italiana*, *Credito Italiano*, *Banco di Roma*) and an Austrian, respectively a Hungarian bank. The new facilitations granted not only favourable credit rates for exporters; it also created a financial instrument that provided additional credit to goods in a consignment, which reduced the potential risk of volatile transportation costs. Overall, the organisation of transport facilitations played an important role. A “tariff council” was established to harmonize cross-border collaboration between the different national means of transportation (especially railways), and funds were granted for the construction of warehouses and free ports.<sup>990</sup>

The extended Brocchi contracts laid the groundwork for Fascist Italy to travel further down the road of bilateralism.<sup>991</sup> The contracts were carefully designed to portray the Italian government as a stalwart adherent to international free trade and a liable partner because it complied with obligations deriving from the MFN-clause. However, the German embassy in Rome referred to confidential sources in the Italian administration that were all-too-aware that many of the benefits in fact did not comply with the “spirit” of the MFN clause.<sup>992</sup> The application was accorded a new initiative at the League in favour of bilateral preferential agreements for the crisis-shaken countries in Southeastern Europe: the release of the Danube

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<sup>987</sup> De Michelis, ‘Rapporto a S.E. il Ministro Conferenze Danubiana’, 19 Mar 1932, ASMAE, Archivio Grandi, busta 34.

<sup>988</sup> DB Rom to AA on the meeting Grandi with Schubert, 6 Mar 1932, PA-AA, R105.590.

<sup>989</sup> See Nautz, *Unterhändler des Vertrauens*, pp. 47-48.

<sup>990</sup> MAE, 22 Mar 1932, ASMAE, AC, Italia, 1932; DB Rom to AA, 18 Nov 1932, PA-AA, R240.910.

<sup>991</sup> Bientinesi, *La politica commerciale italiana*, p. 215.

<sup>992</sup> DB Rom to AA, 16 Nov 1932, PA-AA, Rom-Quirinal 926b.

memorandum.<sup>993</sup> It suggested concluding preferential agreements, but only to those countries running a deficit in trade with Southeastern European grain exporters. In Germany, this strategy was perceived by Alfred Sohn-Rethel, an expert at the MWT, the main advocacy group of Germany's commercial expansion into Southeastern Europe, not as an opportunity only. In general, broader support for the preferential idea was desirable; however, the Italian conceptualisation represented a potential threat because it would exclude big surplus exporters such as Germany.<sup>994</sup> The German embassy in Rome shared the concerns of Sohn-Rethel.<sup>995</sup>

With the Brocchi contracts, Fascist Italy not only drifted, albeit secretly, from the international economic order as envisaged by the League; it also increased tensions with the German advances in Southeastern Europe.<sup>996</sup> The AA, an active spectator of the negotiations between Rome, Budapest and Vienna, increasingly faced difficulties acquiring information about the actual mechanism set into motion by the contracts. On the official level, the Italian and Hungarian governments played down in talks with German representatives the content as well as the chance of further extension of the contracts.<sup>997</sup> Moreover, apparently measures were taken to close the leaks in the Austrian federal administration the AA had been using to get insider information.<sup>998</sup> Even businesses and private persons in Italy seem to have been bound to secrecy.<sup>999</sup> Presumably, the increasing secrecy took its toll in the AA's suspicion that the Brocchi contracts were only the beginning of a much deeper integration of the tripartite relationship, namely the construction of a customs union.<sup>1000</sup>

The Italian government tried to quash, apparently without success, these concerns by referring to the monetary problems such a union would face. Immediately after Italy laid with the Brocchi contracts the foundations for a development leading to Fascist Italy's greatest economic influence in Southeastern Europe, Grandi recognised that the German government attempted "to discourage the Austrian and Hungarian governments from a more substantial and general accord". The cooperative associations of the Italian economy reckoned with a

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<sup>993</sup> E. Hantos, *Die Neuordnung des Donauraumes* (Paderborn, 2013; reprint 1935), pp. 78-83.

<sup>994</sup> A. Sohn-Rethel, 'Italien im Donauraum', *Der deutsche Volkswirt*, 13 Oct 1933, pp. 57-60; cf. Kaiser, *Economic diplomacy*, p. 72.

<sup>995</sup> DB Rom to AA, 3 Aug 1933, PA-AA, R105.875.

<sup>996</sup> See for the impact of the Brocchi contracts and the Danube memorandum on the political German-Italian relationship, Petersen, *Hitler-Mussolini*, pp. 83-84, 228-230.

<sup>997</sup> DB Rom to AA, 3 Apr 1932, PA-AA, R105.590; DB Rom to AA, 15 Nov 1932, PA-AA, Rom-Quirinal 926b. As in the case of the German preferences for Romania and Hungary, Italy always depicted the contracts as a mere economic pact, and denied any further-reaching political intentions; cf. J. Kühl, *Föderationspläne im Donauraum und in Ostmitteleuropa* (Oldenburg, 1958), p. 87.

<sup>998</sup> DG Wien to AA, 17 Oct 1933, PA-AA, R240.910.

<sup>999</sup> GK Mailand to AA, 24 Mar 1933, PA-AA, R240.889/1.

<sup>1000</sup> DG Budapest to AA, 18 Feb 1932, PA-AA, R30.426; DB Rom to AA, 29 Jun 1933, PA-AA, R240.910.

development where it was very difficult to co-ordinate Italian and German economic interests in the region.<sup>1001</sup> German-Italian rivalries for the markets of Southeastern Europe, which will be set out in the following part of the thesis, were in full swing.

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<sup>1001</sup> MAE, Report Grandi on meeting with Schubert, 15 Mar 1932, ASMAE, Archivio Grandi, busta 34.



## **Conclusion Part II: The Triumph of Bilateralism**

Part II has highlighted that it was one region in particular where Germany's and Italy's international foreign economic initiatives came in contact after the onset of the world economic crisis: Southeastern Europe. While the US – in 1929 the major trading partner for Germany as well as Italy – noted with discontent how its trade with both had withered, the Southeastern European states witnessed rising attention. This renewed interest amidst an unfolding economic and financial catastrophe derived from political and economic considerations. Rome and Berlin shared the political view that by building up stronger ties with the region, opportunities would arise to confront the contested post-war order of Europe. In economic terms, the region offered much-needed raw materials and the opportunity to benefit from local industrialisation efforts.

Luckily for Germany and Italy, the crisis-ridden agricultural countries of Southeastern Europe pooled their demand for economic support with an initiative, giving Germany and Italy powerful political leverage. To advance the initiative, the “agrarian bloc” chose the international platform that had since the end of World War I taken an active interest in their development: the League of Nations. The economic and financial organisations of the League administered many of the loans granted to the newly-founded states after the war, oversaw monetary stabilisation efforts and monitored economic development. After 1930, various bodies of the League discussed proposals of Southeastern European states, which demanded that the prices of their export goods be supported in order to guarantee their financial stability. As Germany and Italy possessed the largest import requirements for the typical export goods of the region, they became crucial for any relief plan for Southeastern Europe. Thereby, opportunities for a beneficial co-ordination of Italian and German initiatives at the League emerged.

However, the first successes of this liaison were not achieved over Southeastern Europe's economy. Both supported the accession of Russia and Turkey to the Commission of Enquiry for European Union merely to undermine the French position. Another, more important field of collaboration helps us to understand the generous German accommodation of Italy's export interest in the bilateral economic relationship as investigated in Part I. Before 1933, Germany's foreign policy considered Mussolini and his delegates in Geneva as important allies in the fight against reparations. At the same time, the Lausanne Conference

settled Germany's obligations in 1932, and Germany and Italy signed a payments agreement that for the first time granted a position to imports from Italy that was not in accordance with economic logic and the German imports-reduction policy.

While there was a convergence of interests with regard to the question of reparations, this was not the case for the discussion of initiatives for Southeastern Europe's economic recovery at the League. A German economy freed from reparations and other forms of debt would have had more purchasing power and hence was supported by Italian agricultural interest groups. They even supported a larger German share in Southeastern European trade because it was hoped that the profits Germany made by exporting to the region would be spent on orders of more luxury goods from Italy. Needless to say, this was not what Italian industrialists with expansionist desires for Southeastern Europe wanted. Part II was able to show that after the failed project of a German-Austrian customs union, suspicions prevailed in Italian government and business circles that Germany's economic initiatives in the region bore a menacing character for Italy's industrial interests.

Accordingly, the attempts at co-ordination over the League's work on the economic crisis in Southeastern Europe could not reach the level of co-operation and the success of prior initiatives. The German bid to support prices in Southeastern Europe with preferential treatment of grain imports from the region found acceptance at the League and could have transformed a German initiative into an act of international solidarity. The Italian delegates acknowledged the plan and agreed that as a net importer of grain, Italy could benefit from the initiative, too. Yet, they hesitated to join ranks with Germany.

The reasons behind the reluctance are twofold and derive from international as well as more bilateral factors. Firstly, Italian representatives always warned that the implementation of a preferential regime between a few European countries would cause opposition by countries that feel excluded and being infringed in their rights deriving from the most-favoured-nation clause. For Italy's commerce, they feared especially retaliations from the US and Argentine. In fact, the US opposed the German preferential scheme and brought it thereby to fail. Secondly, also in the suggested preferential system, Italian foreign trade experts detected a mechanism which was suspected of diminishing Italian prospects on the markets of Southeastern Europe. In an open and multilateral strategy, Berlin had asked in return for its preferential treatment of agricultural goods from Southeastern Europe only for a general reduction of customs duties on industrial imports. Potentially, not only German manufactures, but every exporter would have benefited from this development. Nevertheless, Italian experts

expected (not without reason) that the German industry would still be the largest profiteer as it had undergone large-scale rationalisation throughout the 1920s and could now optimistically face competition.

Given the failure of the League strategy, the last chapter of Part II showed how in response a more bilateral strategy gained hold. Germany retreated from the League after the Nazi seizure of power in 1933, not without taking advantage of the national resentments against the League's financial supervision. Nazi Germany's representatives pretended to act in the name of the debtor countries in the last meetings they attended, whereby Berlin's reputation in Southeastern European capitals was enhanced. This allowed for a deepening of the relationship between Germany and each of the states in crisis, as is further analysed in Part III. Even clearer was the turn to bilateralism in the Italian Brocchi contracts. Against the idea of an open and multilateral preferential system as discussed at the League – which would have the potential to be acknowledged by the US – Rome granted a series of hidden preferences to Austria and Hungary only, which were supposed to be the most important allies of fascist Italy in the region.

The Brocchi contracts serve as a central point of departure in Part III, which analyses the triangular economic relationship of Germany and Italy in Southeastern Europe and the Eastern Mediterranean after 1933, and contrasts it with the development of the bilateral economic relationship of Part I. The description of the preferential mechanism has shown that although Italy did follow a bilateral path, the Brocchi contracts still bore evidence of the previous discussions of the League on how to solve the crisis in Southeastern Europe. Part III keeps track of this legacy. Moreover, the investigation of the political goals Italy pursued with the Brocchi contracts revealed the strong anti-German character of the alliance. At the same time, Part I has already demonstrated that Nazi Germany's foreign economic policy – the “new plan” – prioritised Southeastern Europe over Italy. Therefore, further analysis is necessary to understand how the growing rivalries on the markets of Southeastern Europe interacted with the described development of the bilateral German-Italian economic relationship.



## Part III: The Quest for New Markets 1933-1936

### Chapter 8: *Hinterland/Retroterra* – Entangled Economic Expansion in Southeastern Europe

#### *Introduction: Economic Expansion after 1933*

The seminal year 1933 saw at its beginning Hitler's appointment as *Reichskanzler* and the changes the Nazi seizure of power brought to Germany's attitude to international relations. Germany retreated within the same year from the first international organisation found to guarantee peace and economic development: the League of Nations. But this was not the only setback for interwar internationalism in 1933. In June 1933 the world economic conference in London attempted to find an internationally co-ordinated answer to the Great Depression and failed decisively.<sup>1002</sup> The United Nations commemorated the dire consequences: "worldwide unemployment and collective insecurity. Thereafter, the economic and financial organisations of the League of Nations decided to focus more on the co-operation of individuals rather than of States".<sup>1003</sup> Regionalism had won over internationalism in ruling the international economy.<sup>1004</sup> Henceforth, the exchange of goods and the movement of capital was subdued to political guidance.<sup>1005</sup>

Despite the unquestionable importance of these events, some elements in Germany's and Italy's economic relationships with the world transcended the watershed of 1933. The following section on the German-Italian relationship on the markets of Southeastern Europe and the Eastern Mediterranean will show the degree to which the entangled economic expansion after 1933 built on the experience acquired in dealing with the economic and financial work of the League. German and Italian League experts like Hans Posse or Fulvio Suvich, to name only the most prominent ones, became high profile officials in the administration of foreign commerce after they had moved from Geneva to their respective

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<sup>1002</sup> Cf. Clavin, *Securing the world economy*, pp. 84-123.

<sup>1003</sup> UN, 'About UNOG', available:

<<http://www.unog.ch/80256EDD006AC19C/%28httpPages%29/05BBB89F97399EF4C1256F350049DF51>> (retrieved 16 Jul 2015).

<sup>1004</sup> Economic Committee, 'Collaboration Economique Internationale', 5 Jun 1936, LON, R4405.

<sup>1005</sup> Cf. Osterhammel and Petersson, *Geschichte der Globalisierung*, p. 82.

capitals.<sup>1006</sup> They brought with them valuable and sometimes confidential information they had acquired in dealing directly with national governments and economies in crisis. Furthermore, the commercial instruments applied after 1933 still bore evidence of various preferential systems elaborated before 1933.

The history of the German-Italian involvement in the economic and financial work of the League helps, therefore, to tackle the central question of Part III: how did the ambiguous commercial relationship of Germany and Italy develop in their shared periphery, which was at the same time characterised by co-operation and fierce rivalries, and what was the impact of this dimension on the foundation of the “Rome-Berlin Axis” in 1936?

### ***1. Transfer of Commercial Policy***

The history of international action to rescue Southeastern European countries in economic crisis has illustrated how the recipients of aid participated in the formulation of the right remedy. It was the recipients who promoted preferences to be granted by the industrialised “centre” of Europe to the primary producers in the periphery. At the League of Nations, the idea of preferences collided with the idea of liberal free trade, with the latter eventually losing ground. Its key structural feature, the most-favoured-nation (MFN) clause, no longer seemed to be of paramount importance in the self-centred fight of nation-states against the crisis. Yet, it was maintained at least on the official level. On the fringes of this discussion, Italy, together with Hungary and Austria, elaborated a system of commercial contracts that secretly granted preferences without harming the MFN status of external trading partners. Hungary, as has been shown, was not a passive recipient of an institutional framework built by an expansionist regime. On the contrary, Budapest decisively initiated what became known as the Brocchi contracts, and it did not stop after it had approached Fascist Italy.

The new Nazi government had only been in power for half a year when several private and public actors reached out for a closer commercial collaboration between Germany and Hungary. The chemical giant *IG Farben* employed an agent in Hungary to ferret out the reasons for the recent market losses of its products and ways to employ its assets deriving from exports, which were blocked because of the Hungarian foreign exchange controls.<sup>1007</sup> Previously, German agricultural protectionism in the early stages of the world economic crisis

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<sup>1006</sup> Cf. Liebscher, *Freude und Arbeit*, p. 631.

<sup>1007</sup> Ritter (AA) to Nickl (Budapest), 17 Mar 1933, PA-AA, R105.729.

had caused Hungarian disappointment with the German trading partner, and subsequently paved the ground for a growing Italian share in Hungary's agricultural exports and industrial imports.<sup>1008</sup> The report by *IG Farben* (which the company also made available to the AA) suggested that the central aim of Germany's commercial policy should be the stimulation of agricultural imports.<sup>1009</sup> In the same vein argued Werner Daitz, head of the foreign trade department at the NSDAP office of foreign affairs (*Außenpolitisches Amt*), and thus one of the masterminds behind the Nazi conception of a "greater economic area" (*Großwirtschaftsraum*), who travelled to Budapest in June 1933. Moreover, he claimed to break "with the old prejudices deriving from the system of the most-favoured-nation clause".<sup>1010</sup> The Hungarian government certainly welcomed the visit of the German commercial experts. Earlier in 1933, shortly after the Nazi seizure of power, Prime Minister Gyula Gömbös had reassured Hitler that Hungary "always looks to Berlin with a certain hope and sympathy", and that it would be in "Germany's interest that this sympathy is not disturbed in any way by uncertain economic relations".<sup>1011</sup> Hitler, in return, had reassured Gömbös that there was no doubt that Germany would grant preferences to Hungary.<sup>1012</sup>

While both governments with a strong revisionist agenda for Europe showed interest in supporting their relationship with stronger economic ties, it was the Hungarian government which momentarily suggested how this could be carried out. Finance Minister Tihamér Fabinyi spoke of "a big thing" if "Germany would consider a generous preferential treaty modelled on the Hungarian-Italian or the Hungarian-Austrian treaty". The government expressed its hopes that Germany would be "attentive to the Hungarian desire",<sup>1013</sup> and send officials to Berlin. That the delegated experts entered Germany under false names highlights the secrecy and the charged political content both parties attached to the negotiations.<sup>1014</sup>

In response to the aspirations expressed by the Hungarian government, the AA instructed Karl Schnurre at the German embassy in Budapest to devise a plan. While Schnurre was to have an impressive career in the Third Reich, becoming a major architect of the Hitler-Stalin-Pact, and eventually head of the commercial department of the AA,<sup>1015</sup> in 1933, he was

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<sup>1008</sup> 'Accordi Italo-Ungheresi per esportazione di grano ed altre merci attraverso i porti di Fiume e di Trieste', ACS, Fondo PCM, busta 1611.

<sup>1009</sup> Ritter (AA) to Nickl (Budapest), 17 Mar 1933, PA-AA, R105.729.

<sup>1010</sup> AA, 27 Jun 1933, PA-AA, R105.729.

<sup>1011</sup> Gömbös to Hitler, 22 Apr 1933, PA-AA, R105.729.

<sup>1012</sup> AA, 27 Sep 1933, PA-AA, R30.529.

<sup>1013</sup> DG Budapest to AA, 26 Aug 1933, PA-AA, R242.635.

<sup>1014</sup> AA, 18 Sep 1933, PA-AA, R105.729.

<sup>1015</sup> There is no in-depth biographical study on Karl Schnurre yet, although a literary estate exist.

still but a counsellor at the embassy in Budapest. Nevertheless, his analysis was eagerly anticipated not only by the commercial experts in public service, Karl Ritter (AA) and Hans Posse (RWM), but also by Max Hahn, managing director at the MWT. Schnurre worked closely with Etienne De Winckler, Hungarian minister of trade and traffic and delegate to the League of Nations.<sup>1016</sup> The two experts co-operated in strict secrecy, not only circumventing other members of the Hungarian delegation to the League in Geneva, but also some members of the Hungarian government.<sup>1017</sup>

Schnurre's concept complied with the Hungarian desire to receive the same sort of preferential treatment as the Italians had granted. He took the Italian Brocchi contracts, which he considered ponderous, as a template and tried to improve them. As in the Italian system, the instruments for preferential treatment consisted of export premiums for transactions between Hungary and Germany and the mutual reimbursement of costs. The premiums were to be used to enhance the competitiveness of Hungarian products either by lowering the costs of production or transportation. The ratio of reimbursement would be largely in favour of Hungary, and as in the Brocchi contracts calculated on population figures. For the administration of the system in Hungary, Schnurre suggested the same institutions that had been created with the Italian-Hungarian preferential system. As its ideal counterpart in Germany, he brought the *Reichsbank* into play for the reason that it would allow them to "avoid creating the impression that this is new". In general, Schnurre was convinced that his concept allowed them to "even better disguise the preferences towards third states" than the Brocchi contracts because, for instance, it aimed at financing the preferential system by releasing the German assets blocked in Hungary after the introduction of Hungarian foreign exchange controls, and no transaction had to be made that could cause mistrust by third-party states with MFN rights.<sup>1018</sup>

In return, Schnurre calculated that Hungarian import quotas could boost the sales of German products such as automobiles, textiles, steel and paper, which had been largely disadvantaged because of the preferences granted with the Brocchi contracts for Austrian and Italian industrial goods. Ultimately, the Hungarian economy should be restructured: there would be a move away from the domestic industrialisation predominant in the second half of the 1920 and early 1930s and a development towards satisfying the German demand for

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<sup>1016</sup> AA, 26 Sep 1933, PA-AA, R30.529.

<sup>1017</sup> AA, 27 Sep 1933, PA-AA, R30.529.

<sup>1018</sup> Schnurre (DG Budapest), Memorandum, 19 Sep 1933, PA-AA, R30.529.



agricultural products. Schnurre particularly favoured the production of oilseeds and especially soy seeds, an idea which was elaborated by the experts of the MWT.<sup>1019</sup> Schnurre's concept, therefore, underlined the role of the Hungarian economy as a primary producer and recipient of industrial products from Germany with only limited domestic industrial development.<sup>1020</sup>

The draft for a new German-Hungarian commercial contract came at exactly the same time as the Nazi government's decision to redefine the role of Germany within the international economy. In a session on 4 October 1933, the new cabinet under Adolf Hitler approved a law drafted by the RWM. Hans Posse, state secretary at the economics ministry, explained the draft and the future challenges Germany faced. In his view, the constant dissolving of the MFN clause and the growing difficulties in trade with one of Germany's major sales markets, France, would call for an "active commercial policy" on the basis of reciprocity. Especially interesting in this regard were markets where "the domination [...] by the German businessman seems likely". For Posse – as for Hitler – these markets could be found especially in Southeastern Europe. There, Italy's approach would set standards for Germany's foreign economic policy, argued Posse.<sup>1021</sup>

The orientation towards the path already followed by Fascist Italy paved the way for the implementation of Schnurre's concept. On 17 January 1934, an executive meeting of ministers and state secretaries from the AA and the ministries of finance and economics declared "that political considerations [...] demand to conclude with Hungary an exceptional commercial relationship". Finance Minister Schwerin von Krosigk brought his concerns to the table that the preferential treatment (worth RM 15 million) would be too expensive a policy for Germany's public finances. However, eventually he was persuaded that the concept did not burden the government budget to the full extent of the preferences because it used the frozen German assets in Hungary,<sup>1022</sup> which was estimated at RM 60 to 75 million.<sup>1023</sup> Shortly thereafter, the major steering institution of Germany's foreign trade, the trade political

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<sup>1019</sup> Cf. J. Drews, *Die "Nazi-Bohne": Anbau, Verwendung und Auswirkung der Sojabohne im Deutschen Reich und Südosteuropa (1933-1945)* (Münster, 2004).

<sup>1020</sup> Schnurre (DG Budapest), Memorandum, 19 Sep 1933, PA-AA, R30.529. This finding backs the recent criticism that the industrialisation of Southeastern European countries in the inter-war period was not only a result of the commercial agreements signed with Nazi Germany, but also a result of developments prior to that. Cf. Kopsidis, 'Missed Opportunity or Inevitable Failure?', p. 24.

<sup>1021</sup> Reichskanzlei, 'Kabinettsitzung', 4 Oct 1933, *Akten der Reichskanzlei* (Boppard am Rhein, 1983), I, 2, No. 224.

<sup>1022</sup> AA, report on the meeting on 17 Jan 1934, 22 Jan 1934, PA-AA, R105.729.

<sup>1023</sup> AA to various embassies (confidential), 28 Feb 1934, PA-AA, R30.529

committee (*Handelspolitischer Ausschuss*), decided that the preferential concept should be applied for a new German-Hungarian commercial contract.<sup>1024</sup>

The contract was signed on 21 February 1934.<sup>1025</sup> It bound Germany and Hungary more closely together at the expense of other trading partners because it stipulated that the granted concession could not be compromised by concessions made in any other commercial contract.<sup>1026</sup> A confidential note by the AA reveals that this clause – and indeed the entire contract – intended to “strengthen Hungarian independence, not only from the Little Entente, but also from Italy”.<sup>1027</sup> This political agenda had a huge economic impact. While in 1933 Germany had had a surplus of RM 3.9 million, in 1934, Hungary almost doubled its exports to Germany and achieved a trade surplus of RM 24.3 million.<sup>1028</sup> Furthermore, already when the Hungarian and the German government were coming to terms with the new contract, German authorities mentioned internally that the preferential concept should also be applied to other countries in Southeastern Europe such as Yugoslavia.<sup>1029</sup>

While in Germany the Brocchi contracts served as a template for the Nazi foreign economic policy devoted to the idea of an economic expansion into Southeastern Europe, in Italy exactly this scenario stimulated an extension of the Brocchi contracts.<sup>1030</sup> The extension culminated in the Rome Protocols, signed on 17 March 1934 between Italy, Austria and Hungary.<sup>1031</sup> The multilateral contract broadened and intensified the Brocchi provisions with a series of open and hidden preferences granted to the contractual partners. Applying the Rome Protocols, Fascist Italy reached the closest approximation to an Italian economic Mitteleuropa. Imports from Austria, for instance, started to rise again and grew from L. 175,253,000 in 1933 to L. 371,292,000 in 1936. The growth rate exceeded that of imports from Germany, France and the Netherlands. At the same time imports from Belgium and Britain decreased. Italian exports to Austria only started to rise again in 1934, from L. 122,400,000 to L. 193,408,000 in 1936. However, at the same time exports to most other countries (except Germany) fell sharply.<sup>1032</sup> League of Nation statistics for Hungary reveal that Italy’s share in Hungary’s

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<sup>1024</sup> ‘Sitzung des handelspolitischen Ausschusses’, 23 Jan 1934, PA-AA, R105.729.

<sup>1025</sup> AA to various embassies (confidential), 28 Feb 1934, PA-AA, R30.529.

<sup>1026</sup> AA (Ritter), 28 Feb 1934, PA-AA, R105.729.

<sup>1027</sup> AA to various embassies (confidential), 28 Feb 1934, PA-AA, R30.529

<sup>1028</sup> *Wirtschaft und Statistik* 15 (1935), p. 128.

<sup>1029</sup> AA (Ulrich), 19 Feb 1934, PA-AA, R105.729.

<sup>1030</sup> Cf. Ránki, *Economy and foreign policy*, p. 137; Petersen, *Hitler-Mussolini*, p. 217.

<sup>1031</sup> The text of the Protocols of Rome is printed in a contemporary German interpretation of the contracts. Cf. W. Schumann, *Die Römischen Protokolle als wirtschaftspolitisches Problem* (Leipzig, 1939), p. 13-16.

<sup>1032</sup> Federico, *Il commercio estero*, pp. 111, 119.

imports rose from an average for the years 1925-30 of 4.8 per cent to 8.5 per cent in the first half of 1935 and the share in Hungary's exports from 6.2 per cent to 14.4 per cent.<sup>1033</sup> All in all, it can be concluded that the impact of Italy's preferential systems was stronger on the import side, that it indeed shifted trade from Western Europe to Austria and Hungary and that it did not work as a countermeasure to balance the strongly increasing importance of Germany as a sales market.

The question of whether the Rome Protocols can be seen as a success or as an expensive and ultimately failed experiment – with Italy's increasing share in trade with the member countries seen as being due to other causes – already preoccupied contemporary theorists, and is still somewhat open in current historiography. Whereas most commentators at the time, such as the Italian minister of foreign trade and exchange, Felice Guarneri,<sup>1034</sup> or the Czechoslovakian professor of economics, Antonin Basch,<sup>1035</sup> proved to be rather sceptical about the impact, current scholarship, on the contrary, suggests that the Rome Protocols had a direct positive impact on Italy's foreign commerce.<sup>1036</sup> For other perspectives than the Italian, an answer to the question of success or failure is more obvious. For instance, in the summer of 1935, Hungarian Minister for Agriculture Kálmán Darányi observed that, "our export of livestock both to Italy as well as Germany has reached the maximum numbers established in the quotas". Therefore, he rejected the claim that "the tripartite Pact of Rome did not satisfy expectations".<sup>1037</sup>

The assessment as success or failure for Italy also depends on whether the outcome is compared with economic or more political visions about the expected performance. Of course, the prices Italy paid for Austrian and especially Hungarian export goods were well above the current world market prices due to the granted preferences, and therefore degraded Italy's terms of trade.<sup>1038</sup> Yet, already before signing the protocols the MAE spoke of "new sacrifices",<sup>1039</sup> thereby implying that Rome deliberately chose this development to allow

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<sup>1033</sup> LoN, 'Financial Position of Hungary in the Third Quarter of 1936', 20 Oct 1936, ASMAE, Società delle Nazioni, busta 79.

<sup>1034</sup> Guarneri writes in his memoirs that he was a strong opponent of the system. See Guarneri, *Battaglie economiche*, p. 364.

<sup>1035</sup> Basch attributes the increase in trade rather to the war in Ethiopia and the consequences of the League's sanctions on Italy's import demand from non-sanctioning-countries. See A. Basch, *The Danube Basin and the German Economic Sphere* (London, 1944), p. 161.

<sup>1036</sup> Bientinesi argues that, without the system, some of Italy's export goods would have been not competitive. See Bientinesi, *La politica commerciale italiana*, p. 238. On the same page is Cuomo, 'Trieste, l'Italia', p. 63.

<sup>1037</sup> LI Budapest to MAE, 5 Jun 1935, ASMAE, AC, Italia, 1935, pos. 28.

<sup>1038</sup> Cf. Enderle, *Die ökonomischen und politischen Grundlagen*, p. 207.

<sup>1039</sup> LI Budapest to MAE, 14 Sep 1933, ASMAE, AC, Italia, 1935, pos. 28.

governments with fascist leanings to remain financially independent from other states.<sup>1040</sup> In this regard, it seems that a negative assessment solely on economic terms falls short of the mark.

Whatever the real impact of the Rome Protocols was, there is no doubt that the German government perceived this development as an Italian success and a potential threat. “We have no friends left” complained a government official at the AA after the news of the Rome Protocols reached Berlin.<sup>1041</sup> Officially, Berlin protested to Rome against a violation of Germany’s economic interest in the region,<sup>1042</sup> but there is little doubt that in fact the Rome Protocols were perceived primarily as an instrument to prevent the *Anschluss* of Austria. The man in the middle, Hungarian Prime Minister Gömbös – although not completely innocent with regard to the German-Italian frictions – argued strongly for a “reparation of the broken Axis Berlin-Rome”.<sup>1043</sup>

Disappointment, of course, prevailed on both sides. After information about the secret proceedings between Berlin and Budapest leaked, Rome approached Budapest to get details on the concessions granted with the envisaged German-Hungarian commercial contract. After the German authorities in Hungary had halted this attempt, Rome deplored a breach of the common German-Italian practice that each government inform the other about any foreign economic policy initiative in Southeastern Europe. The German government was well aware of the hostile message it sent out. Nonetheless, it felt entitled to unilateral action because Rome had failed to inform Berlin about manoeuvres intending to make the Adriatic port of Trieste the exclusive hub of Austria.<sup>1044</sup> In the infrastructural connection of Southeastern Europe with its major markets, fierce rivalries between Nazi Germany and Fascist Italy evolved, which were as in the case of preferential treatments stimulated by German-Italian transfers.

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<sup>1040</sup> ‘The Rome Protocols’, *Times*, 19 Mar 1934.

<sup>1041</sup> Quoted in G. Ránki, ‘Il patto tripartite di Roma e la politica estera della Germania (1933-34)’, *Studi Storici* 3 (1962), pp. 343-375, 360.

<sup>1042</sup> AA (von Bülow) to DB Rom, 20 Mar 1934, PA-AA, R105.644.

<sup>1043</sup> DB Rom to AA, 8 Nov 1934, PA-AA, R241.116.

<sup>1044</sup> AA to DB Rom, 22 Jan 1934, PA-AA, R105.729.

## ***2. Connecting Southeastern Europe with the World – Hamburg/Bremen vs. Trieste***

Competition between the German ports of Hamburg and Bremen and the Italian ports Trieste and Fiume (today Rijeka) reached its climax shortly after the Nazi accession to power and the subsequent commercial expansion into Southeastern Europe. However, the causes of the conflict were long-standing and deep-rooted. Prior to World War I, Trieste had been the Austro-Hungarian Empire's gateway to the Adriatic. As a major commercial hub, it possessed great strategic importance for the government of the k.u.k. Monarchy, which invested in the infrastructural connection of the port with its commercial hinterland, spanning from Southern Germany deep into the Balkan peninsula. A direct railway connection, the *Südbahn*, ran from Vienna all the way south to Trieste.<sup>1045</sup>

While the *Südbahn* had connected Trieste closer to the centre of the empire, the aftermath of the Great War, defined by a redrafting of Europe's political map, pushed Trieste back into the periphery. A series of new borders in Central and Southeastern Europe cut through Trieste's traditional commercial networks. Moreover, it now belonged to Italy with an already-established commercial infrastructure (with major ports in Genoa and Venice), and a composition of trade different from the sort Trieste had specialised in while still part of the Austro-Hungarian Empire. Nevertheless, more to the advantage of Trieste, access to the Adriatic was a strategic asset when the Italian government intensified commercial relations with Southeastern Europe in the 1920s,<sup>1046</sup> and could be thrown in the balance when trying to turn commercial negotiations to Italy's favour. Correspondingly, Austria's government and business circles complained that, "the suffocating Austrian economy was deprived of its natural centre of expansion".<sup>1047</sup>

To regain Trieste's strategic importance for the new states of Southeastern Europe, its old infrastructural connections had to be revitalised. Therefore, in 1923 the Italian government founded together with representatives from Austria, Yugoslavia and Hungary the railway company *Donau-Save-Adria Gesellschaft* (DOSAG), which incorporated the old *Südbahn*.<sup>1048</sup> According to Fulvio Suvich, its sphere of influence reached as far as

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<sup>1045</sup> Suvich (MAE), 'promemoria', 20 May 1932, ASMAE, Carte Suvich, busta 13.

<sup>1046</sup> Cf. Cerasi, 'Frontiera, periferia', pp. 69-97.

<sup>1047</sup> LI Vienna to MAE, 30 Jun 1934, ASMAE, AC, Italia, 1934, pos. 28.

<sup>1048</sup> Suvich (MAE), 20 May 1932, ASMAE, Carte Suvich, busta 13.

Romania.<sup>1049</sup> Iginio Brocchi, who, as the mastermind behind Italy's preferential system familiar with Hungary's and Austria's economy,<sup>1050</sup> represented Italy on the board of the company.<sup>1051</sup> Contracts regulated a harmonisation of tariffs for cross-border trade and how the Southeastern European states were permitted to make use of the port of Trieste. With these arrangements Trieste flourished. For instance, the tobacco Southeastern Europe and Germany ordered in Greece and the Middle East was increasingly shipped via the Italian port.<sup>1052</sup> In 1925, however, Hamburg and Bremen transformed the market. Previously, the German ports had played no major role due to monetary instability (German hyperinflation 1921-1924) and international regulations restricting Germany's foreign commerce.

The competition of the German ports posed a serious threat to Trieste's business model. Stakeholders in Trieste's port business, like Antonio N. Cosulich, representative of one of the big shipping companies, had placed great hope in Trieste's self-conceived competitive advantage to constitute the central gate for trade between Southeastern Europe and the Eastern Mediterranean (*Levante*) as well as the Far East.<sup>1053</sup> Both the German and the Italian press acknowledged that these hopes had been based on assumed location advantages due to closer physical proximity (for the Austrian market, the difference was approximately 500 kilometres compared with the North Sea ports). However, the advantage was reduced by two other geographical factors. First, the Alps separated Trieste from the markets of Southeastern Europe, whereas there was no such elevation between the North Sea and the Balkan peninsula; second, the German ports benefited from what the newspaper *Il Popolo di Trieste* called a "splendid position of channels and inland waterways".<sup>1054</sup> The Italian business paper *Il Sole* once referred to the network of ports and channels between the North Sea and the Danube as a polyp with his tentacles clawing for Europe.<sup>1055</sup> With these two physical advantages, Hamburg and Bremen were able to undercut Trieste's freight rates. Even for shipments from the Egyptian port of Alexandria to Vienna or Budapest, the route via Hamburg/Bremen was

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<sup>1049</sup> Suvich and Bianchi, *Memorie*, p. 94.

<sup>1050</sup> See chapter 7 on the Brocchi contracts.

<sup>1051</sup> Archivio di Stato di Trieste, *Inventario*, p. 5.

<sup>1052</sup> DK Saloniki to AA, 13 Sep 1927, PA-AA, R242.634. For Greece, Bulgaria and Turkey, tobacco was the major export good. See, CEEU, Special Committee for the Extension of Preference to Agricultural Products other than Cereals, 29 Oct 1931, LON, R2915.

<sup>1053</sup> Moscheni to Suvich (MAE), 9 Nov 1933, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1054</sup> 'La lotta tariffaria fra Trieste ed Amburgo', *Il Popolo di Trieste*, 13 Jul 1927.

<sup>1055</sup> DB Rom to AA, 8 Sep 1933, PA-AA, R242.635.

potentially cheaper than via Trieste.<sup>1056</sup> Between 1924 and 1926 the port of Trieste saw its handling reduced by 22 per cent.<sup>1057</sup>

Worried about Trieste's future, Italian authorities took the initiative. One potential solution to secure a certain market share was international co-operation. Certainly, a price war was not in the interests of either of the competing ports. Furthermore, as has been demonstrated above, Gustav Stresemann's foreign policy, which aimed at using Germany's economic relations with the world to strengthen its international position, facilitated settlements of commercial disputes.<sup>1058</sup> Accordingly, Italy pushed for co-ordination at a series of conferences starting in the second half of the 1920s. At the conference of Munich in June 1928, representatives of national governments and railway companies from Austria, Czechoslovakia, Hungary, Yugoslavia, Germany and Italy decided how to organise the market. A *Frachtgleichheitslinie* (line of equal freight rates) divided Czechoslovakia into a northern part, belonging to the German ports, and a southern part where traders were supposed to make use of Trieste (see figure 3). Contracts regulated that the freight rates could only be changed in concordance with the *Frachtgleichheitslinie*. To carry the co-operative spirit of the Munich conference into the future, all the stakeholders present in Munich founded the *Zweckverband zur Regelung des eisenbahntarifischen Wettbewerbs im Güterverkehr* (administration union for the regulation of railway tariff competition in freight traffic).<sup>1059</sup> In conclusion, the German railway authorities were confident that the freight rates would develop "peacefully, steadily and without aggressive intervention [...] whereby not only the needs of railway administrations, but also business circles are met".<sup>1060</sup>

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<sup>1056</sup> 'La lotta tariffaria fra Trieste ed Amburgo', *Il Popolo di Trieste*, 13 Jul 1927; 'Triest gegen Hamburg', *Kölnische Zeitung*, 10 Jun 1927.

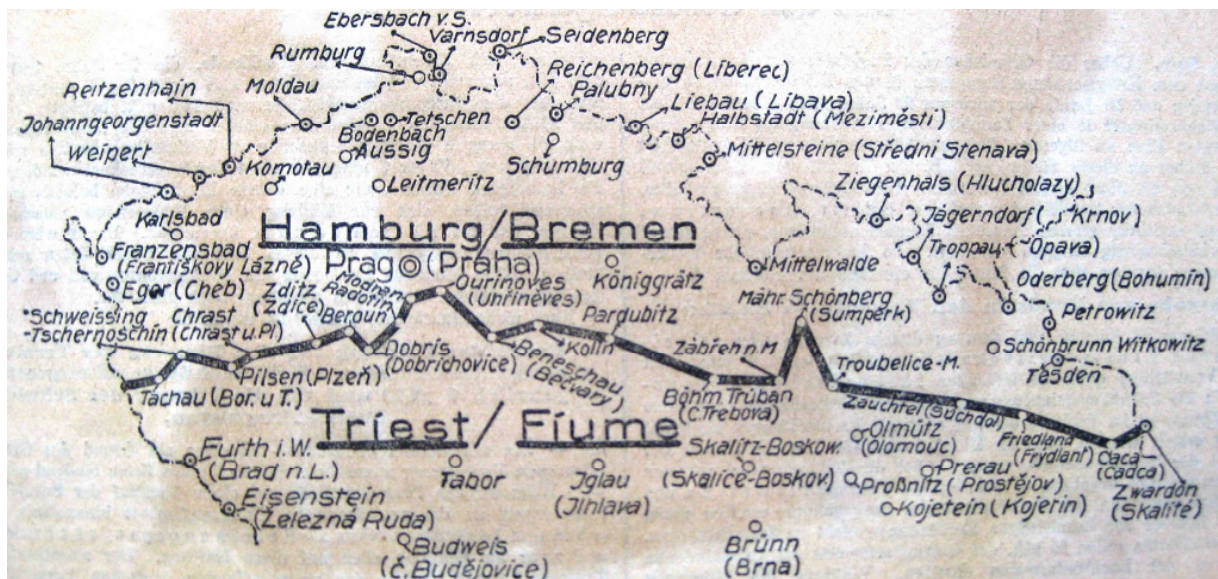
<sup>1057</sup> Moscheni (Cosulich) to MAE, 9 Jul 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1058</sup> See Chapter 1.

<sup>1059</sup> Deutsche Reichsbahngesellschaft to AA, 22 Dec 1932, PA-AA, R242.634.

<sup>1060</sup> Deutsche Reichsbahngesellschaft to AA, 30 Jun 1928, PA-AA, R242.634.

**Figure 3: A contemporary map of Czechoslovakia with the *Frachtgleichheitslinie***



Source: 'Zur Einigung im Tarifkampf Hamburg-Triest', *Berliner Tageblatt*, 25 Jul 1928.

Italian authorities, too, considered the geographical division of port hinterlands a success. However, their aspirations went beyond Czechoslovakia and even Southeastern Europe. In a meeting of Italian government officials led by Ciancarelli with representatives from the railway company, port administrations and shipping companies, of which the protocol leaked to the German Consulate in Trieste, hopes were expressed that Germany too could be divided up with a *Frachtgleichheitslinie*. Bavarian business circles in particular had shown interest in making greater use of Trieste, and the transalpine consortium, a lobby group, was instructed to investigate ways of encouraging closer Bavarian-Adriatic integration. Yet, at the same time the Italian experts did not have great hopes for success. They regretted that “today, Bavaria depends more than ever on Berlin, and Berlin is less distant from Hamburg”.<sup>1061</sup>

With the world economic crisis, however, attempts at international co-ordination, which had defined economic areas along lines of transportation costs rather than national borders, floundered. Even shortly before the crisis, Italian exporters had planned to ship their goods intended for the Scandinavian market, and South-African fruits intended for the Central European market, via Hamburg. Re-nationalisation, prevalent in so many patterns of reactions to the economic crisis, made these plans obsolete, and Trieste was endowed with handling the

<sup>1061</sup> DK Triest to AA, 4 May 1928, PA-AA, Rom-Quirinal 943B.



goods.<sup>1062</sup> Yet, these efforts had only a limited impact. Between 1929 and 1930 the port of Trieste lost 20 per cent of its traffic on land and on water.<sup>1063</sup>

The German ports intensified their efforts, taking advantage of the political squabbles between Germany and Italy over Austria's independence. Initially, the Italian representatives in the *Zweckverband* had asked to divide the Austrian market along geographical lines as had happened with the Czechoslovakian market, but encountered German opposition. Austria was therefore not divided, but nevertheless awarded to Trieste's sphere of interest by obliging the German ports to keep their rates 12 to 15 per cent above those of Trieste.<sup>1064</sup> However, when in September 1931 the Banca d'Italia discussed the possible repercussions of a German-Austrian customs union, it was convinced that sooner or later this plan would include a railway union, which would ultimately close off the Austrian market from Trieste.<sup>1065</sup> Accordingly, the Italian reaction to the customs union had to forge a new strategy if the port of Trieste and the plans for an Italian expansion into Southeastern Europe were to stay alive.

In 1931, Iginio Brocchi developed a plan to subsidize transportation via Trieste. The idea was to use the DOSAG to co-ordinate preferential freight rates to be granted to the participants of the international consortium. In order to prevent competitors for Southeastern Europe's trade by rail from claiming a violation of their MFN-rights, preferences were only provided on those sections of the transportation network where no competitor operated, and where consequently nobody could complain about unfair treatment.<sup>1066</sup> Furthermore, the DOSAG planned to establish a lending business, which would provide generous loans to the participating railway companies.<sup>1067</sup>

The initiatives on how to circumvent the MFN clause highlight that the German-Italian battle for Southeastern Europe's trade routes was intertwined with the previously analysed discussion at the League of Nations on how to deal with the economic crisis in the region. This discussion came across Southeastern Europe's railways twice. Firstly, in analysing public expenditure in the crisis states under its supervision, the Financial Committee of the League suggested that the budget could be improved especially by reducing expenditure for railway

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<sup>1062</sup> GK Pretoria to AA, 2 Jun 1930, PA-AA, R240.707.

<sup>1063</sup> DK Triest to AA, 8 Jan 1931, PA-AA, R242.669.

<sup>1064</sup> Reichskanzlei, 4 Aug 1931, BArch, R 43-I/81.

<sup>1065</sup> BdI, 'Ripercussioni di eventuali unioni doganali fra stati della europa centro-orientale sull'esportazione italiana', 19 Sep 1931, Archivio Storico Banca d'Italia, Carte Beneduce, cart. 283.

<sup>1066</sup> DB Rom to AA, 30 Jul 1931, PA-AA, Rom-Quirinal 926b.

<sup>1067</sup> Cosulich to Suvich (MAE), 3 Aug 1932, ASMAE, AC, Italia, 1935, pos. 28 T.A.

administration.<sup>1068</sup> Secondly, where the discussion centred not so much on public debt, but more on how to generate growth in the ailing economies, it was exactly in the sector of transport infrastructure that a path out of the crisis was forged. Casimiro Buttini, the Italian expert at the League dealing with public works, reported that the proposed major investments in railways and inland navigation could be adapted at the same time to support the transit traffic between certain countries and to drain off parallel traffic to other countries. That Buttini developed his argument on the basis of “suggestions of Danubian states”, and that these suggestions seemed to him “particularly interesting in regard of the international political problem”, highlight that in Geneva the economic interest of Southeastern European states in economic crisis met with political considerations on behalf of Italy.<sup>1069</sup>

The German commercial experts also took the opportunity to use infrastructure investments in order to gain international acceptance for preferential treatment. Thereby, the markets of Southeastern Europe and the ports in Germany and Italy grew closer, and at the same time the competition between the latter reached a new level. At the Lausanne Conference in summer 1932, German-Italian co-operation over war debts ended, to the bitter disappointment of Italy (see chapter 7). Moreover, representatives of *Banca d'Italia* recognised that with Lausanne, the *Reichsbank* and the *Reichsbahn*, both “equally vital for the German economy, regained their independence”. The *Reichsbahn* was relieved of any reparations obligations and administrative control.<sup>1070</sup> Simultaneously, the *Zweckverband*, the administrative union of the Southeastern European, Italian and German stakeholders in the railway network, was dissolved. Furthermore, the *Reichsbahn* cancelled the contract, which had awarded Austria’s commercial traffic to Trieste by keeping the rates for handling in Hamburg and Bremen well above the Italian rates.<sup>1071</sup>

In Italy, many of the stakeholders in Trieste’s transit business felt threatened by the recent aggressive manoeuvres in Germany, and put pressure on the government in Rome not to give up on co-ordination. Cosulich argued that it was necessary to seek a new railway agreement with Germany. The ongoing and treaty-breaching practice of “price dumping” in railway transportation, Danube navigation and shipment had to be stopped.<sup>1072</sup> Rather than speaking of his company’s interest, he emphasised that support for Trieste was a question of

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<sup>1068</sup> FC to Hungarian Minister of Finance, 27 Sep 1932, Library of Congress, Norman H. Davis Papers, Box 34; Financial Committee, 24 Oct 1931, LON, Financial Committee, vol. 1296.

<sup>1069</sup> Casimiro Buttini to MAE, 24 Mar 1932, ASMAE, AC, Italia, 1932.

<sup>1070</sup> BdI Berlino to BdI, 9 Jul 1932, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 228.

<sup>1071</sup> Deutsche Reichsbahngesellschaft to AA, 22 Dec 1932, PA-AA, R242.634.

<sup>1072</sup> Cosulich to Presidenza del Consiglio, 7 Aug 1931, ACS, Fondo PCM busta 1611.

national interest. The “importance of those countries, justifies the great attention the Italian government has dedicated [...] to determine the political economy to be given to Central Europe”.<sup>1073</sup>

Attempts at co-ordination were made in a series of meetings in Cologne (1932), Budapest (1932), Garmisch (1933), Rome (1933) and Munich (1934). The frequency of the conferences suggests that an agreement over various issues such as the legality of tariffs, harmonisation of tariffs, or marketing arrangements over spheres of interest was rather difficult to find.<sup>1074</sup> Finally, the Italian protocol of the 1934 conference of Munich concluded that after Germany’s representatives had previously conducted the negotiations quite rigidly, they now were driven by a “very conciliatory spirit”. That they were ready to come to an acceptable agreement proved for the Italian delegation that “the basis of their instructions derived from political factors”.<sup>1075</sup>

However, despite the official proclamations in the name of closer collaboration between Fascist Italy and Nazi Germany, the rivalries between the ports persisted in disguise. In December 1933, the city of Hamburg reported to the German government that, “Italian circles have made huge funds available to investigate handling in the German North Sea ports”. The judgment stood: “traffic espionage to a very high extent”.<sup>1076</sup> That in fact Italian authorities were very keen to receive first-hand information is revealed by a report from the pen of Giovanni Host-Venturi kept at the archives of the MAE. Host-Venturi, an activist who fought for Italy’s *terra irredenta*, and who later became secretary of the merchant marine, travelled to Hamburg and Bremen to study in particular the organisational aspects relevant for Italy’s Adriatic ports. He gathered information about the handling of cotton in Bremen (a sector deemed particularly relevant for Trieste), and the inter-organisational collaboration between Hamburg and Bremen, believed to be a role model for the collaboration between Trieste and Fiume.<sup>1077</sup>

In addition to the secretive action directed against its competitors, the Italian government also pursued a confidential agenda in dealing with clients in Southeastern Europe. The bid to win the commercial traffic of Austria and Hungary basically consisted of space and

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<sup>1073</sup> Cosulich to Suvich (MAE), 3 Aug 1932, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1074</sup> DB Rom to AA, 8 May 1933, DB Rom to AA, 8 May 1933.

<sup>1075</sup> ‘Rapporto sulla conferenza di Monaco’, 9-13 Feb 1934, ASMAE, AC, Germania, 1934, pos. 4.

<sup>1076</sup> Vertretung Hamburgs beim Reich to various ministries, 27 Dec 1933, PA-AA, R241.376. Also the Baltic ports of Szczecin (Stettin) and Gdansk (Danzig) recorded attempts at Triestinien espionage. See Preußischer Minister für Wirtschaft und Arbeit to AA, 10 Apr 1934, PA-AA, R241.376.

<sup>1077</sup> Nino Host-Venturi, ‘Relazione sul viaggio ai posti di Danzica, Gdynia, Amburgo e Brema’, n.d., ASMAE, AC, Italia, 1935, pos. 28 T.A.

money, and was formulated in connection with the Rome Protocols (see Section 1). The first offer foresaw the creation of free ports within the port of Trieste, which would grant Austrian and Hungarian sovereign territory in Italy. Austrian business circles acknowledged that the instrument allowed different tariffs in Trieste, which would significantly reduce transaction costs on the trade routes with Austria and Hungary, without harming the rights of third parties.<sup>1078</sup> Nevertheless, the instrument encountered scepticism from the outset in spite of repeated Italian offers.<sup>1079</sup>

Relatively more successful was the second instrument: abatements (reductions) on railway tariffs. In February 1934, the Austrian government and the *Magazzini Generali di Trieste* (warehouses of Trieste) signed an agreement that substantially reduced transaction costs for shipment via Trieste for a series of basic commodities (e.g. coffee, tea, cocoa, spices). The novelty was that the abatements were granted secretly. That the transaction was processed by *Magazzini Generali*, an institution that supposedly attracted less international attention than a major government institution, can be interpreted as an attempt to hide the deal. In addition, Cosulich suggested to the MAE “in order to avoid demurs by third parties” not to publish neither the annex with the details of the tariff reductions, nor any reference to it in the text of the protocol, but only an adjusted version, innocent of any mistrust-causing content.<sup>1080</sup> In fact, the German business press<sup>1081</sup> as well as the government<sup>1082</sup> failed to identify who financed the system, or precisely how it was carried out.

However, it was quite apparent that the Italian abatements met with success. The Austrian business press reported that in the first four months of 1934, significantly more goods were traded via Trieste than in the same period in 1933.<sup>1083</sup> The success was so remarkable that even German freight forwarders previously based in Hamburg started to relocate to Trieste to benefit from the abatements.<sup>1084</sup> This development rattled the ports at the North Sea, and stimulated an institutional transfer similar to the above-addressed construction of the German-Hungarian commercial contract early in 1934.

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<sup>1078</sup> ‘Die Aufnahme der römischen Protokolle in Wien’, *Die Wirtschaft*, 24 Mar 1934; Moscheni to Suvich (MAE), 9 Nov 1933, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1079</sup> DG Wien to AA, 10 Sep 1933, PA-AA, R242.669; ‘Programma per la visita della delegazione austriaca a Trieste’, 12 Jun 1934 ASMAE, AC, Italia, 1934, pos. 28; DB Rom to AA, 28 Jun 1934, PA-AA, R242.636.

<sup>1080</sup> Cosulich, 3 Feb 1934, ASMAE, AC, Italia, 1934, pos. 28; For a published version of the abatements see ‘Die neuen Triester Importrefaktien’, *Der Kolonialwaren- und Produktenmarkt* 4 (1934), p. 3

<sup>1081</sup> ‘Verkehr und Schifffahrt’, *Eildienst*, 12 Feb 1934.

<sup>1082</sup> Benzler to RWM, RFM, 7 Jun 1934, PA-AA, R242.636.

<sup>1083</sup> DG Wien to AA, 19 Jun 1934, PA-AA, R242.669.

<sup>1084</sup> ‘Verkehr und Schifffahrt’, *Eildienst*, 12 Feb 1934.

In Hamburg and Bremen, public as well as private actors rose up against the abatements paid in Trieste. The *Handelskammer Hamburg* (Hamburg Chamber of Commerce) submitted a petition to the RWM in which representatives of trade, maritime shipping and freight forwarding demanded that “also in Germany a fund has to be set up, to grant the same abatements for shipment to Austria”.<sup>1085</sup> The reaction of the German government came swiftly. Less than a month after the publication of the new Triestinian abatements, the AA informed the Hungarian government about the creation of the *Hanseatischer Abwehrverband* (Hanseatic Defence Association, HAV). The HAV established branches in Hamburg and Bremen, and adopted the same measures as Trieste by paying premiums for the shipment of certain goods. It was designed as a private institution although its “funds, as noted strictly confidential, are released by the Reichsregierung and the Reichsbahn”. Given its private character, the AA considered Austria and Italy deprived of any legal means to complain because, “no formal breach of the commercial contracts exists, and proof that resources [of the HAV] draw on public funds cannot be provided”.<sup>1086</sup>

In Italy, the creation of the HAV made headlines. The Triestinian newspaper *Il Piccolo* wrote about the *colossi* of the North defending themselves, and tried to learn who financed the HAV. The article excluded the German government because of the “friendly relations” between Nazi Germany and Fascist Italy. Furthermore, it also believed that the *Reichsbahn* was beyond suspicion because of the international agreements it had concluded.<sup>1087</sup> Somewhat less naïve was the Italian government, which immediately judged who was behind the financing of the association: the German government and the *Reichsbank*. The MAE noted that commercial agents by order of the HAV had started to approach Austrian exporters to lobby for the German ports.<sup>1088</sup>

While the Italian abatements were used as the template for the institutional transfer from Fascist Italy to Nazi Germany, certain elements changed. To the advantage of Trieste, interested parties just had to notify the authorities about their intention to make a transaction via Trieste in order to benefit from the Italian premiums. The HAV, in contrast, only granted benefits after a complex and rigid bureaucratic procedure.<sup>1089</sup> Nevertheless, this advantage for Trieste was largely outweighed by the innovative approach used by the architects of the HAV

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<sup>1085</sup> Handelskammer Hamburg to RWM, 1 Feb 1934, PA-AA, R242.635.

<sup>1086</sup> AA to DB Budapest, 15 Feb 1934, PA-AA, R242.635.

<sup>1087</sup> ‘I colossi del Mare del Nord si difendono’, *Il Piccolo*, 6 Mar 1934.

<sup>1088</sup> MAE, 16 Mar 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>1089</sup> ‘Erhöhung der Triester Refaktien für Österreich’, *Die Wirtschaft*, 17 Mar 1934.

to acquire funds for the Hanseatic bid. As in the new German-Hungarian commercial contract, the benefits offered to potential clients in Southeastern European countries could tap the assets that derived from previous German exports and that were blocked due to foreign exchange controls. This was made possible with a functioning clearing system.<sup>1090</sup> Italian authorities and private companies condemned this win-win concept, accusing Germany of distorting competition,<sup>1091</sup> and deplored at the same time that Italy's clearing agreements with Austria and Hungary made it difficult to adopt this new financing method for Trieste's traffic.<sup>1092</sup>

While Trieste could hardly win the battle of the ports by financial means, there was still an ideological asset. German businesses after 1933 were facing an international boycott movement in response to the politically orchestrated violence against the Jewish community, and Trieste tried to benefit at the expense of its German competitors. Many members of the business community of Southeastern Europe's textile industries belonged to the Jewish faith. Of course, the atrocities in Germany did not remain unheard along the Danube. In this situation, representatives from Italy (and particularly from the long-established Triestian logistics company *Francesco Parisi*) quietly and quite successfully convinced merchants in Southeastern Europe to order their cotton using the port of Trieste instead of Bremen. They were helped by a certain Dr. Redlich, a former director of the *Transportbank* who fled Nazi Germany because of religious persecution, and who shared his knowledge of Germany's hidden transportations subsidies.<sup>1093</sup>

Meanwhile in Bremen, a commission was sent out to Austria, Czechoslovakia and Hungary in May 1934 to investigate the recent losses on the cotton markets of Southeastern Europe.<sup>1094</sup> For the commission it quickly became clear that, "the Jewish question everywhere plays the decisive role. With nearly the same transportation costs, procurement is predominantly via Trieste".<sup>1095</sup> Together with the RWM and the *Reichsbahn*, the German ports agreed to install an agent like the one the Triestian company *Francesco Parisi* employed.<sup>1096</sup> In addition to the German adoption of Italian measures, Trieste soon again lost its position

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<sup>1090</sup> DG Budapest to AA, 5 Oct 1934, PA-AA, R242.636.

<sup>1091</sup> MAE to MCorp, 3 Jul 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1092</sup> MAE, 30 Oct 1933, ASMAE, AC, Jugoslavia, 1933; MFin to MAE, 18 Feb 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1093</sup> DOSAG to Giulio Ingianni (Direttore Generale della Marina Mercantile), 30 Jun 1934, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1094</sup> Bremer Baumwollbörse to RWM, 21 Sep 1933, PA-AA, R242.635.

<sup>1095</sup> Reisebericht Hirschfeld und Holtz, 8-14 May 1934, PA-AA, R242.636.

<sup>1096</sup> HAV to RWM, 18 Jul 1934, PA-AA, R242.636.

because of a fading boycott movement. In Hungary, where in order to advance Hitler Prime Minister Gyula Gömbös took an antisemitic tone.<sup>1097</sup> Jewish business men were put under pressure. By the end of 1935, 85 per cent of cotton orders in Hungary came via Bremen,<sup>1098</sup> and the branches of *Francesco Parisi* reported significant losses on the other markets too.<sup>1099</sup>

The major beneficiary in the battle of the German and Italian ports was the Southeastern European customer. German and Italian agents involved in the payments of the abatements reported that several times transactions had been subsidised not because the client had to be convinced to change hub, but only to keep a client who already made use of the supported port. Thereby, even those clients who had probably never considered shifting their transactions to another port could benefit from the German-Italian rivalries.<sup>1100</sup> In Italy, Senator Federico Ricci warned that the Austrian government would take advantage of its strategic position between the two dictatorships and ask for “ever more concessions”.<sup>1101</sup> In addition, Austria and Hungary not only profited from the reduction of transaction costs, but also from investments in transportation, which were stimulated by the fierce competition. The project of a joint Italian-Hungarian shipping company, for instance, failed because the Hungarian stakeholders had in the meantime accepted an apparently better offer by German investors.<sup>1102</sup>

The battle of the ports, like the construction of the German-Hungarian commercial contract, shows that institutional settings that were developed first in Fascist Italy in reaction to international responses to the crisis, and then adopted by Berlin’s foreign economic policy experts, facilitated the onset of Nazi Germany’s economic expansion into Southeastern Europe. The transfers, however, did not add to closer political collaboration promoted at the level of official foreign policy. On the contrary, the transfer increased rivalries and changed the rules of commerce in Europe. It seems from the examples of Austria and Hungary that Nazi Germany was able to use the new rules to its advantage. To further examine this

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<sup>1097</sup> Gömbös to Hitler, 22 Apr 1933, PA-AA, R105.729.

<sup>1098</sup> DG Budapest to AA, 28 Dec 1935, PA-AA, R242.636.

<sup>1099</sup> Francesco Parisi Monaco to headquarters, 2 Jul 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1100</sup> DG Budapest to AA, 29 Aug 1934, PA-AA, R242.636; Suvich (MAE) to Moscheni (Cosulich), 22 Mar 1934, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1101</sup> DB Rom to AA, 10 May 1935, PA-AA, R242.669.

<sup>1102</sup> MAE, 12 Jul 1934, ASMAE, AC, Italia, 1934, pos. 16-27. Another politicised battle over ownership concerned the Austrian *Donaudampfschiffahrtsgesellschaft* (Danube Steamboat Shipping Company). Cf. Lloyd Triestino to MAE, 28 Aug 1934, ASMAE, AC, Italia, 1934, pos. 2-8-9; Enderle-Burcel, ‘Konkurrenz auf der Donau’, pp. 171-184. It was not only in the area of transportation that German and Italian investors competed. For an overview of major cases from different industries see DG Wien to AA, 18 May 1934, PA-AA, R243.066.

argument, however, it is necessary to take a closer look at other Southeastern European markets.

### ***3. Institutional Competition in Fascist Italy's Best Market: Yugoslavia***

In 1933, the AA estimated that, “Germany and Italy are on every market of the Southeast fierce rivals”. The situation in Yugoslavia, however, was peculiar in that it was the only market (except Albania, which is addressed below) where in 1933 the Italian economy was better positioned than the German one.<sup>1103</sup> The state of Yugoslavia, which had come into existence after World War I as a merger of previously separated territories, had been a central cornerstone in the security architecture created by the Versailles Treaties. Economic ties with France had been vital throughout the 1920s, but the collapse of agricultural prices brought about by the world economic crisis and the failure of the French market to cover up the price erosion with increased orders, caused tensions within the territory of Yugoslavia. Nationalist movements, especially strong in the predominantly agricultural regions, not only began to call into question the existing economic and political status quo of the state, but also sought a potential realignment with the biggest markets for Yugoslav products: Italy and Germany.

Notwithstanding political rivalries over Italian claims on *terre irrendente* in Yugoslavia, Fascist Italy was Yugoslavia's long-standing primary customer. Facilitated by a relatively strong presence of its financial industry, Italy imported particularly large amounts of timber and live-stock. Moreover, Yugoslavia provided minerals, in parts, with great importance for an Italian industry with a very limited domestic resource base.<sup>1104</sup> Italy, on the other hand, exported to Yugoslavia roughly half the value of its imports only.<sup>1105</sup> The already-substantial deficit increased even further as competitors from other countries fought vigorously for market shares in Yugoslavia to escape the great slump. Italian textiles were challenged by a growing domestic production, Italian cars by US vehicles and Italian foodstuffs by Greek rice and Spanish fruits. Furthermore, in the past, Yugoslavian exporters had more often shipped their goods to international customers via Italy, which had slightly reduced the Italian deficit in trade with Yugoslavia.<sup>1106</sup>

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<sup>1103</sup> AA, 23 Jan 1933, PA-AA, R30.297.

<sup>1104</sup> Zanchi (BdI Berlino) to Azzolini (BdI), 21 Jan 1933, ACS, Fondo Iscambi, busta 43.

<sup>1105</sup> ‘Il commercio estero della Jugoslavia’, *Il Giornale d'Italia*, 18 Jun 1931.

<sup>1106</sup> DG Belgrad to AA, 20 Mar 1931, PA-AA, R240.880.



In contrast, Germany was strong on the export side. It competed with Czechoslovakia to become the largest exporter to Yugoslavia, and ran a large surplus in trade. Many actors were involved in the systematic development of the market for German products, not only from commercial business *strictu sensu*, but also from the sphere of cultural production.<sup>1107</sup> The Zagreb-based periodical *Novosti* observed in 1931 that the “German penetration of our territories in the name of culture and business since the end of World War I was never so intense and diverse as in recent times”. German publishing houses hastened to open up branches in Yugoslavia, and filled the bookshelves with German literature. Moreover, German musicians and artists toured the stages of the country, providing a positive image of Germany at a time when, according to *Novosti*, sympathies for France were waning.<sup>1108</sup> That this effort paid off was for the AA demonstrated by Yugoslav Foreign Minister Bogoljub Jevtic, who had studied in Germany, and who had declared himself in favour of an alignment with Germany even against French resistance.<sup>1109</sup> The German delegation in Belgrade reported that potential stakeholders would demand the foundation of a German-Yugoslavian trade association. The delegation supported the demand because it considered the German-Yugoslavian relationship to be built “today, first and foremost, if not completely, on the economy”.<sup>1110</sup>

Despite the many German-Yugoslav bottom-up initiatives, it was the Italian government that first used the opportunities provided by the necessary renegotiation of commercial contracts after the outbreak of the economic crisis. When Italy concluded a new commercial agreement with Yugoslavia in May 1932,<sup>1111</sup> the newspaper *Industrie und Handel*, a major mouthpiece of Germany’s business circles, reported that, “it is highly relevant for Germany to pay close attention to these events”. The Italian government would try to support the export interests of Italian companies in textiles, iron and steel as well as machinery. However, “far more relevant” than the projected trade figures was the establishment of a permanent “Yugoslav-Italian economic council”. Such a council, which Italy had also created with other countries, was believed “suitable to reduce German influence”.<sup>1112</sup>

The AA, too, described the commercial agreement as an Italian success. According to a document by the Yugoslavian ministry for commerce and industry, Rome had played its

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<sup>1107</sup> For the interaction of culture and economy, see also Sachse, “*Mitteleuropa*”.

<sup>1108</sup> Quoted in DK Zagreb to AA, 20 Jun 1931, PA-AA, R243.085.

<sup>1109</sup> AA to DG Belgrad, 31 Oct 1932, PA-AA, R105.940.

<sup>1110</sup> DG Belgrad to AA, 30 Jan 1930, PA-AA, R243.085.

<sup>1111</sup> Istcambi, ‘Relazione sulla missione della Delegazione Italiana a Belgrado’, 28 Dec 1932, ACS, Fondo Istcambi, busta 43.

<sup>1112</sup> ‘Welthandel – Handelspolitik’, *Industrie und Handel*, 4 May 1932.

major strength: an Italian market hungry for Yugoslavian goods. The fascist government had threatened to use its cooperative structures to put pressure on importers of Yugoslavian goods if Italian companies were not considered more often for public calls for tenders.<sup>1113</sup> Major fascist industry associations had demanded that the current commercial relationship be revised because while Yugoslavian imports from Italy had shrunken, Italian imports from Yugoslavia had actually increased, even though typical Yugoslavian goods were available in large amounts on the world market.<sup>1114</sup> In view of the new commercial agreement the German embassy in Rome noted that “for valuable concessions, Italy paid apparently relatively little”. The embassy speculated that the return service if at all consisted of “hidden preferences”. It was convinced that trade would develop very positively for Italy.<sup>1115</sup>

The careful observation of the commercial institutions designed by Italy allowed the German experts to tackle the two major problems the MWT detected in an analysis of commercial opportunities in Southeastern Europe. Yugoslavia, so believed a commission of MWT experts travelling the region in November 1932, could have a bright future. “The overall impression of the country has the appearance of an unfinished experiment”. To stimulate growth was “apart from the necessary extension of transportation infrastructure especially a problem of capital procurement”. The experts noted that even though Yugoslavia imported more from Germany than from any other country, no branch of a German bank existed in the country.<sup>1116</sup> To address the deficit in financial representation, it was decided to use the German assets worth RM 30 million, which had been blocked with the introduction of foreign exchange controls.<sup>1117</sup> The MWT analysis of the conditions of growth in Yugoslavia, and the advantages Germany could bring into play, highlight the suitability of the institutional transfers discussed in the previous two chapters to alter Germany’s share in the Yugoslav market, and simultaneously aggravate German-Italian rivalries.

Already in the lead-up to a new German-Yugoslav commercial contract over the course of 1933, stakeholders in the bilateral trade had discussed how to apply the two instruments: transportation subsidies and the utilization of frozen German assets. Both Italy and Germany were trying to use strategic investments to connect the Yugoslav transportation network with their domestic network. The shipping company *Bayerische Lloyd*, a direct rival

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<sup>1113</sup> Yugoslavian ministry for commerce and industry (confidential), 7 Mar 1932, PA-AA, Rom-Quirinal 921.

<sup>1114</sup> DB Rom to AA, 24 Mar 1931, PA-AA, R240.880.

<sup>1115</sup> DB Rom to AA, 4 May 1932, PA-AA, Rom-Quirinal 921.

<sup>1116</sup> German authorities had observed attentively how the Italian financial industry expanded into Yugoslavia since the outbreak of the world economic crisis. See DK Zagreb to AA, 1 May 1929, PA-AA, R243.063.

<sup>1117</sup> MWT to von Bülow (AA), 2 Nov 1932, PA-AA, R243.085.

of the *Donaudampfschiffahrtsgesellschaft* (which was financed with Austrian and Italian capital), pressured the German government to pay close attention to transportation issues when negotiating a new commercial agreement. The aim was to open up, and possibly secure, Yugoslav inland waters for the ships of the *Bayerische Lloyd*.<sup>1118</sup> With regard to the frozen German assets it seems that the plan to use them for the creation of a German bank was still far from maturity. In 1933, a representative of the *Dresdner Bank* in Belgrade negotiated over the funds placed by German investors especially in railway construction.<sup>1119</sup> According to the MAE, he failed to reach an agreement. Yet, these negotiations were enough for the MAE to induce Italian banking circles “to create in Belgrade an Italian bank which would do the work attributed to the *Dresdner Bank*”.<sup>1120</sup>

While it seems that the established institutional framework did not provide sufficient support for the deployment of frozen funds, the new German-Yugoslavian commercial contract signed on 1 May 1934 proved to be a turning point. Like the German-Hungarian contract, it was designed with the Italian Brocchi contracts as a template, and established a clearing mechanism together with a set of hidden preferences. The preferences were financed with blocked assets in Yugoslavia. To the AA, although the contract with Yugoslavia was signed after the one with Hungary, the former was even “more important for our entire foreign economic policy in Southeastern Europe”. Indeed, several concessions had not been granted to Hungary in order not to give away capacities needed for Yugoslavia.<sup>1121</sup> Karl Ritter, head of the commercial department of the AA, even lied to the Hungarian ambassador that the contract with Yugoslavia would “not be an important political event”, but the usual “*Wald- und Wiesenverhandlung*” (colloquial for ordinary and trivial negotiations) in the framework of the most-favoured-nation clause.<sup>1122</sup> For Berlin, relations with Budapest were politically already favourable and economically of minor importance. A stronger bond with Belgrade would not only allow the subversion of the Little Entente, but supposedly also bring about substantial commercial advantages.<sup>1123</sup>

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<sup>1118</sup> Bayerische Lloyd to AA, 16 Dec 1932, PA-AA, R105.940.

<sup>1119</sup> Ritscher (Dresdner Bank) to Ritter (AA), 24 Jan 1933, PA-AA, R240.880.

<sup>1120</sup> MAE, 4 Jan 1933, ASMAE, AC, Jugoslavia, 1933. *Dresdner Bank* and *Deutsche Bank* competitively drove forward the German commercial expansion into Southeastern Europe in the 1930s. Cf. C. Buchheim, ‘Unternehmen in Deutschland und NS-Regime. Versuch einer Synthese’, *Historische Zeitschrift*, 282, 2 (2006), pp. 351-390, 370.

<sup>1121</sup> Ulrich (AA), 19 Feb 1934, PA-AA, R105.729.

<sup>1122</sup> Ritter (AA), 9 Mar 1934, PA-AA, R105.729.

<sup>1123</sup> AA, ‘Bemerkungen über das Donauproblem für die Zusammenkunft in Venedig’, 9 Jun 1934, PA-AA, R30.251. Cf. Dengg, *Deutschlands Austritt*, p. 351.

Fascist Italy was not able to counter the German advances in the institutional competition. It has been shown how the new commercial contract between Nazi Germany and Hungary set off an extension of the preferential trade bloc between Italy, Austria and Hungary. However, it also reduced Rome's leeway to offer preferential access to the Italian market to other countries. In fact, Italy, which had already imported more from Yugoslavia than any other country in pre-crisis times, now had to reduce its imports for the sake of the Rome Protocols. All that was left was to witness how the German bid prevailed.<sup>1124</sup> What was more, the new contract not only stimulated Yugoslavian trade with Germany, the requirements of the clearing also made it impossible to pay for Yugoslavian exports if the goods were transported via Trieste, thus rendering the established transit trade of Trieste impossible.<sup>1125</sup>

Rivalries are strikingly illustrated in the 1934 report of the Italian company *Italrayon* to the ministry of corporations on the actions of a German company on the Yugoslavian artificial fibres market, a branch in which Italy had become world market leader after World War I (see Chapter 3). *Italrayon* observed that many Yugoslavian purchasers had recently turned to German viscose producers. In the case of the purchaser *Jugoceska*, the initiative was taken by the chemical giant *IG Farben*, which already had commercial links in the field of paints and was now trying to break into the market of artificial fibres by asking the companies to "express their desires regarding the price".<sup>1126</sup> When *Jugoceska* asked and received a 10 per cent discount on the current price of the Italian products, *Italrayon* accused the competitor of "price-dumping". Moreover, a government journal promoting trade with Germany addressed Yugoslavian industrialists directly, promising German direct investments and new factories.<sup>1127</sup>

In Fascist Italy, it was recognised with disappointment that both government and private institutions were involved in the planning and implementation of Germany's commercial expansion. The Italian legation in Belgrade reported that Germany was building a research centre to study sales management in Yugoslavia. The centre recruited its researchers from among the ranks of former Serbian officers of the Austro-Hungarian Army.<sup>1128</sup> This system of recruiting local experts with traditionally close ties with Germany was also used to

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<sup>1124</sup> DB Rom to AA, 16 Nov 1933, PA-AA, Rom-Quirinal 921.

<sup>1125</sup> DK Triest, 24 Dec 1934, PA-AA, R117.329.

<sup>1126</sup> IG Farben considered the Italian chemical industry as its biggest rival on the markets of Southeastern Europe. See Raspin, *The Italian war economy*, p. 33.

<sup>1127</sup> LI Belgrad to MCorp, 'Penetrazione germanica nei Balcani', 13 Feb 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

<sup>1128</sup> LI Belgrad, 'Penetrazione germanica nei Balcani', 8 Feb 1934, ASMAE, AC, Germania, 1934, pos. 1-4.

facilitate Germany's commercial expansion into Romania, Bulgaria and even into Turkey. From the knowledge collected at the centre of the former Ottoman Empire, Germany's foreign economic experts aspired to access markets in the Eastern Mediterranean.<sup>1129</sup>

Other institutions involved in the broad initiative were trade fairs. The Leipzig trade fair, one of the main Central European trade fairs since medieval times,<sup>1130</sup> established what the Italian consulate in Dresden sceptically referred to as a propaganda office in Belgrade. Again, the Yugoslavian capital was only the seat of the institution, while its scope was the entire region. The importance given to this office is underlined by the fact that the president of the trade fair also personally ran the office in Belgrade.<sup>1131</sup> Representatives of the Italian industry complained, for instance, that the Leipzig trade fair informed potential trading partners of the German economy about the system of *Sperrmark*. This subsidy scheme employed funds blocked in Germany after the introduction of foreign exchange controls in 1931 to support the export of German goods. While the German government justified the scheme as a reaction to the unilateral devaluation of the pound and the dollar, to the Italian government it was nothing more than price-dumping.<sup>1132</sup>

There is evidence that the enthusiasm of trade fairs for the idea of a commercial *Mittleuropa* was not always well received by the German government. The Breslau trade fair together with Yugoslavian merchants planned to establish in addition to its regular exhibition activities a permanent export promotion service. According to the Breslau chamber of commerce, several other trade fairs somewhat surreptitiously had already created similar services.<sup>1133</sup> However, Carl Clodius from the AA urged the Breslau trade fair not to pursue its plan because, "the task is already fulfilled by sufficient official and private organisations".<sup>1134</sup> While this episode displays a moment of dissent between the German government and private stakeholders in the commercial expansion into Southeastern Europe, it also shows that there was a clear division of power between the leading government and the executing business sphere. This resulted in a more coherent German foreign economic policy.

The Italian economic relationship with Yugoslavia, on the other hand, gives the impression that the government was lacking a policy that took into account all stakeholders.

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<sup>1129</sup> LI Belgrad, 6 Feb 1934, ASMAE, AC, Germania, 1934, pos. 1-4. For an analysis of the German-Italian relationship on the markets of Turkey, Egypt, Palestine and Iraq see the following Chapter 9.

<sup>1130</sup> Cf. Gross, 'Selling Germany in SouthEastern Europe'.

<sup>1131</sup> CI Lipsia to MAE, *Ufficio Propaganda Fiera di Lipsia*, 13 Jul 1933, ASMAE, AC, Germania 1937, pos. 27-56.

<sup>1132</sup> DB Rom to AA, 21 Sep 1933, PA-AA, R241.520.

<sup>1133</sup> Industrie und Handelskammer Breslau, 23 Aug 1935, PA-AA, R117.700.

<sup>1134</sup> Clodius (AA) to DG Belgrad, 18 Sep 1935, PA-AA, R117.700.

In 1934, the MAE approved a plan for the foundation of an Italian-Yugoslavian chamber of commerce.<sup>1135</sup> However, at the beginning of 1937, the MAE informed the cabinet that the plan had not yet become a reality.<sup>1136</sup> Actors from the private sphere, too, such as the *Imprese Italiane All'Estero* (Italian Enterprises Abroad, IIE), complained about the government's performance. The IIE had been founded in 1929 by the banks *Banco Di Roma* and *Credito Italiano* and the industrial enterprises FIAT, *Edison* (electrotechnology), *Strade Ferrate Del Mediterraneo* (railways) and *Societa Trentina Di Eletticit * (power generation). Its task was to seek out, administer and finance large private and public works abroad, especially the construction of railways, ports and electrical installations. Its first president was no less an entrepreneur than Alberto Pirelli.<sup>1137</sup> In 1935, under the presidency of Giovanni Agnelli, it obtained a major concession for port and street constructions in Yugoslavia.<sup>1138</sup> For this purpose, a corporation was set up under Yugoslavian law so that IIE could benefit from the privileges the Yugoslavian government granted to domestic corporations working in public supply. However, this construction proved to be incompatible with the clearing mechanism of the Italian-Yugoslavian commercial contract. It proved almost impossible to pay for machines leased in Italy, to pay the salaries of Italian workers in Yugoslavia or transfer the profits to Italy.<sup>1139</sup> Anzilotti, director general at the MCorp, explained to the dissatisfied IIE representative Adolfo Eibenstein the "impossibility of using the clearing as well as the ineptness to accept payments in kind, given that the clearing already now is at a huge deficit to our disadvantage".<sup>1140</sup>

In 1936, the unsatisfactory performance of the institutions governing Italian-Yugoslavian commerce triggered an attempt by FIAT to take over government functions. Already for many years active in Yugoslavia, with factories in Belgrade and in Zagreb,<sup>1141</sup> FIAT planned to invest in two business segments: public transportation and motor vehicles. The latter was considered particularly lucrative because it promised large-scale armament contracts. FIAT noted that its brand image and the distribution of its vehicles in Yugoslavia were quite positive, yet it would be even better if "Germany and France [did not practise] a policy of government subsidies". Therefore, FIAT demanded that Italy too should offer

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<sup>1135</sup> LI Belgrado to MAE, 12 Aug 1935, ASMAE, AC, Italia, 1934, pos-11-15.

<sup>1136</sup> MAE, 'Appunto per il Gabinetto', 11 Jan 1937, ASMAE, AC, Italia, 1936, pos. 10-15.

<sup>1137</sup> Banco di Roma to MAE, 21 Feb 1931, ASMAE, AC, Italia, 1930-31.

<sup>1138</sup> IIE to MAE, 10 Jul 1936, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1139</sup> LI Belgrado to MAE, 14 Sep 1935, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1140</sup> LI Belgrado to MAE, 17 Sep 1935, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1141</sup> For the history of FIAT involvement in the Danube basin see Iaselli, *L'espansione economico-finanziaria*, p. 194.

preferential treatment. Preferences could be implemented when renegotiating the Italian-Yugoslavian commercial contract. FIAT was clearly not satisfied with the current performance of Italian government authorities because it requested that the MAE authorise FIAT “to immediately initiate concrete negotiations with the government in Belgrade” on behalf of the Italian government. In fact, FIAT seems to have been in contact already with the Yugoslavian government, because it communicated with Rome in the name of Belgrade.<sup>1142</sup>

In contrast, the institutional foundations of the German-Yugoslavian commerce – in particular, the clearing agreement – were tinkered with constantly by government officials. The MWT, in an executive meeting with major government officials and representatives of large corporations, gave a positive appraisal of the development of the clearing agreement with Yugoslavia. From the perspective of Germany’s commercial interest, the effect of the clearing was that of a “suction cup”, which strongly encouraged the adjustment of productions “to mutual needs”. Everywhere in Yugoslavia customers would be ready to change to German brands because “almost every child knows the current foreign exchange surplus provided by the agreement with Germany”.<sup>1143</sup> The modifications made to the German-Yugoslavian clearing agreement were carefully studied by Iscambi, Italy’s foreign commerce institute in charge of supervising the clearing and payment agreements.<sup>1144</sup>

With the institutional advances, and with Fascist Italy concentrating on building its African empire by invading Ethiopia, Nazi Germany achieved the dominant position in Yugoslavia’s foreign commerce. Yugoslavia was part of the international community which punished Italy for its aggression by imposing economic sanctions. Nationalist tensions increased in Yugoslavia as the Croatian population with strong economic ties with the Italian peninsula did not support the sanctions.<sup>1145</sup> The German market in this situation provided an opportunity not only to compensate for missing Italian orders, but also to stabilise the established political system. Prince Paul of Yugoslavia expressed his gratitude for Germany compensating the losses on the Italian market, and – despite French and Czechoslovakian

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<sup>1142</sup> FIAT to MAE, 14 Sep 1936, ASMAE, AC, Italia, 1936, pos. 4-6. Cornelio Di Marzio, long-standing member of the PNF and temporary head of the foreign propaganda organisation *fasci all'estero*, complained that Italian companies always asked for subsidies and tariff protections, but did nothing to support Fascist Italy’s political propaganda abroad. See Borejsza, ‘Die Rivalität’, p. 582.

<sup>1143</sup> MWT, ‘Bericht über die Präsidialsitzung des Mitteleuropäischen Wirtschaftstages’, 28 Nov 1935, PA-AA, R105.360.

<sup>1144</sup> LI Belgrad to MCorp, 27 Dec 1935, ACS, Fondo Iscambi, busta 43.

<sup>1145</sup> CI Zagabria to MAE, 20 Dec 1935, ASMAE, AC, Italia, 1935, pos. 16-25-56; MAE to LI Belgrado, 25 Jan 1936, *ibid.*

opposition – proposed a major deal worth RM 8 million to construct a metal factory in Bosnia.<sup>1146</sup>

The German penetration of the Yugoslavian market was thus largely successful. Indeed, *The Times* estimated that Germany's exports in the year 1936 increased by a massive 110 per cent.<sup>1147</sup> On the import side, too, the German market increased its importance for Yugoslavia. According to German statistics, in 1929 only 8.5 per cent of Yugoslavian exports went there, while Italy was buying 24.9 per cent of Yugoslavia's total exports. By 1935, this ratio had turned around with Germany as the biggest customer taking on 18.7 per cent, while Italy's share of 16.7 per cent was reduced to the second place (see also table 11).<sup>1148</sup> At this point, Italy had lost a means of political leverage that its dominant share in Yugoslavia's foreign commerce had once guaranteed.

#### ***4. Collaboration among Equals or Subordination?***

The story of fierce rivalries between Nazi Germany and Fascist Italy in the markets of Southeastern Europe would not be complete without a description of the attempts to solve these conflicts.<sup>1149</sup> One actor who was particularly eager to lead the co-ordination of Germany's and Italy's foreign economic policies to the advantage of both parties was Ulrich von Hassell. In 1932 he was appointed Germany's ambassador to Italy. In their first meeting, the Duce told von Hassell that the constant talk about co-operating needed to be imbued with meaning. Germany and Italy could operate together in the Danube basin if they agreed on spheres of interest; not geographical spheres, but fields of activity pertaining to the economic specialisation of each country. Mussolini gave the example that Southeastern Europe should become the exclusive domain of German chemical manufactures and, at the same time, of Italy's textile industry. The plan included a precise co-ordination of both countries' exports in terms of scale and destination in Southeastern Europe.<sup>1150</sup>

In the summer of 1933, von Hassell sent a more detailed programme for economic co-ordination along the lines of industries to Berlin. There it met with refusal, and the AA argued against the plan's technical feasibility. The first option, an obligation for German companies

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<sup>1146</sup> GK Mailand to AA, 18 Jan 1936, PA-AA, R240.880.

<sup>1147</sup> 'Italo-Yugoslav Pacts Signed', *Times*, 27 Mar 1937.

<sup>1148</sup> 'Die Wirtschaftsverflechtung Mittel- und Südosteuropas', *Eildienst* 6, 123 (29 May 1936), p. 3.

<sup>1149</sup> Recker, 'Grossbritannien, Deutschland und die Südosteuropäischen Staaten', p. 79.

<sup>1150</sup> DB Rom to AA, 9 Dec 1932, PA-AA, Rom-Quirinal 926b; Cf. Petersen, *Hitler-Mussolini*, p. 88.



to export less to Southeastern Europe in favour of Italian competitors, was rejected outright. The second option, a voluntary renunciation of export opportunities on behalf of German producers, was described as unrealistic because the AA deemed the German government's control of the private economy to be insufficient to induce such political considerations into the decision-making process of businesses active in Southeastern Europe.<sup>1151</sup> Moreover, even if some form of voluntary renunciation could be found, the AA was sceptical that the vacant commercial opportunities would be taken up perforce by Italian businesses. On the contrary, in the case of textiles it seemed more likely that Czechoslovakian and Austrian manufactures would breach the markets, and in the sector of machinery – potentially of great interest for the German industry – a withdrawal of Italian products could make way for Swiss, Austrian or US machines.<sup>1152</sup> Nevertheless, even though it tore the plan apart, the AA kept it on the agenda for German-Italian co-ordination in order not to upset its author: Mussolini.

This demonstrates that in the run-up to the “Rome-Berlin Axis” of 1936, official declarations of German-Italian co-ordination belied a certain level of mistrust on both sides. Gerhard Köpke, head of the department for Southeastern Europe at the AA, for instance, indirectly dismissed Mussolini's plan as an honest attempt for co-ordination when he put “the blame for that in this regard nothing has happened [...] on the Italian government”.<sup>1153</sup> The AA was especially wary of the Italian experts, Giuseppe De Michelis, Eugenio Anzilotti and Fulvio Suvich, who were held responsible for Italy's ambiguous standpoint at the League of Nations, and who now oversaw Italy's foreign economic policy in Southeastern Europe.<sup>1154</sup>

Italian government circles as well remained suspicious of Nazi Germany's foreign policy goals. Von Hassell, though he mostly acted as an advocate for Fascist Italy when reporting to Berlin, admitted to nagging mistrust in Rome.<sup>1155</sup> In his memoirs, Suvich recalled that special envoy to Southeastern Europe, Herman Göring, assured the Italians that Germany did not intend to disturb their interests in the region “where it had gained a foothold”. To Suvich, this was clear enough a statement that Italy should be satisfied with what it had

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<sup>1151</sup> Such an evaluation of the Nazi government's influence on the private business sphere is of course debatable. In 1941, the executive Karl Seeliger (print and paper production) described in a speech at the University of Cologne the launch of the Nazi export expansion. He remembered that it had been governed “from above”, and the government had dictated an exchange of goods with Southeastern Europe. See K. Seeliger, *Der Unternehmer in der gelenkten Wirtschaft* (speech held in Cologne, 26 Mar 1941), p. 17. In general, for the debate on businesses' room for manoeuvring under Nazi rule, see C. Buchheim, ‘Unternehmen in Deutschland und NS-Regime. Versuch einer Synthese’, *Historische Zeitschrift*, 282, 2 (2006), pp. 351-390.

<sup>1152</sup> Neurath (AA) to DB Rom, 5 Jan 1933, PA-AA, R30.297.

<sup>1153</sup> Köpke (AA) to Hassell (DB Rom), 24 Dec 1932, PA-AA, R30.297.

<sup>1154</sup> AA to DB Rom, 7 Feb 1933, PA-AA, R30.297.

<sup>1155</sup> Hassell (DB Rom) to AA, 11 Jan 1933, PA-AA, R30.297.

achieved, and from now on it should leave the region to German expansion.<sup>1156</sup> Given the level of distrust prevailing among government authorities, the AA favoured a regulation of the commercial rivalries in Southeastern Europe by the involved industries, and forwarded the task to the mixed commission of German-Italian producers meeting in Venice in February 1933.<sup>1157</sup>

However, while the AA welcomed the work of the mixed commission on the bilateral commercial relationship (see Chapter 3), it stated that, “discussing the question of economic collaboration in the Danube basin, nothing has come of it”. German industrialists present in Venice reported that apparently their Italian counterparts were not granted “approval from above” to make binding commitments. Mussolini, in a meeting with von Hassell, did not even try to disguise the fact that the Italian industrialists had not been empowered to negotiate over Southeastern Europe, and added that the “directives of economic policy had to be defined from above”.<sup>1158</sup> The Italian negotiators in Venice, Felice Guarneri and Dino Olivetti, complained that the German industrialists only pushed for an agreement over Southeastern Europe because they had been instructed to do so by the German government, without actually being interested in the matter.<sup>1159</sup> Accordingly, mistrust not only prevented closer government co-ordination, but also closer private co-ordination, as Italian industrialists suspected their German counterparts in the mixed commission of intransigence in Southeastern Europe.

In spite of these obstacles, Hassell called for actors on both sides not to be blind to the fact that there was a consensus on certain issues. First and foremost, in order to topple French supremacy on the European continent, Berlin and Rome had to take joint action.<sup>1160</sup> For this purpose, Hassell stated that among the agrarian countries of the region, Hungary and Bulgaria were to be supported in the first instance. Moreover, both Nazi Germany and Fascist Italy would reject the formation of a bloc, namely the “small economic Entente”.<sup>1161</sup> In the same vein, they would reject any plan resembling the Tardieu Plan for economic reconstruction of Southeastern Europe, which had proposed a regional agreement on a preferential basis, excluding the major powers. To increase bargaining power in negotiations with the region, von Hassell suggested that the governments should always inform each other on matters such

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<sup>1156</sup> Suvich and Bianchi, *Memorie*, p. 241.

<sup>1157</sup> AA to DB Rom, 7 Feb 1933, PA-AA, R30.297.

<sup>1158</sup> DB Rom to AA, 3 Aug 1933, PA-AA, R105.643.

<sup>1159</sup> DB Rom to AA, 3 Mar 1933, PA-AA, Rom-Quirinal 937a.

<sup>1160</sup> Petersen, *Hitler-Mussolini*, p. 78.

<sup>1161</sup> This alliance united Czechoslovakia, Romania and Yugoslavia and was supported by France.

as the termination of commercial contracts and countermeasures against discrimination or restrictions.<sup>1162</sup>

Von Hassell's suggestions basically shaped the half-hearted attempts at co-ordination between 1933 and 1936. In August 1936, the German government had come to the conclusion that a co-ordinated action could actually benefit the recent German trade expansion facilitated by bilateral treaties, clearings and preferences. If this practice spread internationally with the assistance of Italy, Germany could consider changing the hidden preferences it had granted to Bulgaria, Hungary and Yugoslavia to open preferences because it would no longer have to fear retaliation from third parties.<sup>1163</sup> Also the MAE, when it acknowledged in October 1936 the success of Germany's commercial contracts, expected that the "economic progress in Danubian states could be achieved best with maximum agreement between Italy and Germany". As in von Hassell's concept, mutual consultation and information about the conclusion of contracts, as well as joint actions against the international opponents to a bilateral order of international commerce, were key components for the MAE.<sup>1164</sup>

This consensus was made official policy in the series of protocols that constituted the economic "Rome-Berlin Axis" in December 1936 (see for the implications on the bilateral relationship in Chapter 4). From then on, the two expansionist regimes were obliged to inform each other about further commercial advances in Southeastern Europe.<sup>1165</sup> What they still lacked, though, was a mechanism to co-ordinate and possibly redistribute the market shares they possessed. Instead, the 1936 "protocol on the co-operation regarding transportation", which intended to solve the conflict between the ports of the North Sea and the Adriatic, only referred to a distribution of the markets along geographical or product lines.<sup>1166</sup> Both distributions had been suggested earlier, and both had already been shrugged off as impractical or undesirable.

How much a real geographical distribution was contradicted by the ongoing practice in Southeastern Europe can be grasped by looking at the situation in Albania. After the collapse of the Ottoman Empire, the small Southern Balkan country became a favoured destiny of Fascist Italy's foreign economic activity. In 1929 almost half of Albania's imports came from Italy (see Table 11). The government paid for imported goods and infrastructure services with

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<sup>1162</sup> Hassell to AA, 3 Aug 1933, ADAP, series C, vol. I, 2, no. 388.

<sup>1163</sup> AA to DB Rom, 31 Aug 1936, PA-AA, R105.360.

<sup>1164</sup> MAE, 12 Oct 1936, ASMAE, AC, Germania 1937, pos. 1-4.

<sup>1165</sup> MAE, 'Protocollo Per La Collaborazione Economica Italo-Germanica nel Bacino Danubiano', 11 Dec 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>1166</sup> MAE, 'Questioni relative ai trasporti', 11 Dec 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

money it had borrowed in Italy, thus becoming more and more dependent on its Adriatic neighbour.<sup>1167</sup> The US Council on Foreign Relations wondered why the League of Nations “allowed the country’s destiny to be placed in the hand of the Credito Italiano and the Banca Commerciale Italiana”.<sup>1168</sup> In addition to goods and services, Italian government and military experts, Italian soldiers and workers flowed into Albania, exerting ever more influence. After 1927 and the “Pact of Tirana”, Albania became de facto an Italian protectorate. Nevertheless, neither the Albanian King Zog nor his subjects submitted completely to Rome, which caused a great deal of misgiving.<sup>1169</sup>

Despite the fact that the Nazi German government acknowledged Albania as part of an Italian sphere of interest, and trade relations were of only limited importance to the German economy, the German embassy in Tirana and German companies tried to use to their advantage the opportunities offered by the Italian-Albanian frictions. The embassy informed Berlin about the “bad and insincere mutual relationship between Italy and its Albanian ally”, and said that Rome regretted its large financial investments.<sup>1170</sup> In order to secure the meagre yields, Rome influenced procurement procedures to protect Italian companies. *Siemens-Bauunion*, a German construction company, complained to the AA that although it had won the bid to construct a hydroelectric power plant in Korçë, the contract was awarded to the *Società Generale Italiana di Eletticità Milano*, which had not even taken part in the tender.<sup>1171</sup>

However, this strategy had its limits. The *polizia politica* reported in 1935 that an attempt to monopolise Albania’s trade to the advantage of Italy failed because many representatives of the Albanian economy feared that they would lose their commercial freedom.<sup>1172</sup> In 1935, the German embassy, together with Mehdi Frashëri, the then new Albanian prime minister, tried to circumvent the Italian grip on the Albanian economy. According to Frashëri, public opinion in Albania was undivided in its “unconditional trust in the sincerity, objectivity and accuracy on behalf of Germany”. Therefore, he urged the German government to send an expert commission to Albania to prepare the ground for closer

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<sup>1167</sup> Since 1931, Albania received 10 million gold-francs annually from Italy. See Collotti and Labanca, *Fascismo e politica di potenza*, p. 225.

<sup>1168</sup> H. F. Armstrong, ‘Italy, Yugoslavia, and Lilliputia’, Council on Foreign Relations, Princeton University, Box 668.

<sup>1169</sup> LI Tirana to MAE, 2 Mar 1931, ASMAE, Archivio Dino Grandi, busta 28; Cf. A. Roselli, *Italy and Albania: financial relations in the fascist period* (London, 2006).

<sup>1170</sup> DK Tirana to AA, 6 Jan 1933, PA-AA, R88.578.

<sup>1171</sup> DG Tirana to AA, 23 May 1936, PA-AA, Rom-Quirinal 918A.

<sup>1172</sup> Roma, 26 Mar 1935, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 177.

economic collaboration. In order to hide the official character of the commission he suggested that it could be disguised as a university delegation. The embassy supported Frashëri's proposal, saying that it would be a good idea to "take the chance to collect useful information and connections in order to achieve a preferential position" on the Albanian market.<sup>1173</sup> The Albanian trade statistics show that this strategy achieved some success. Already in 1936, while Fascist Italy was invading Ethiopia, Albania ran for the first time a positive balance in trade with Italy, and German (and Japanese) goods increasingly forced Italian exports out of the market.<sup>1174</sup>

To some extent, the development in Albania resembles the situation in Yugoslavia as described in the previous chapter. Taken together, the examples cast doubt on whether real economic collaboration to the advantage of both parties, as intended by the protocols of December 1936, was at all possible. Although in both markets Fascist Italy's position had been stronger than Germany's at the beginning of the world economic crisis, and German authorities even acknowledged the countries as part of Italy's *spazio vitale*, it was not able to counter the trade expansion of Nazi Germany as of 1934.

That instead of co-ordination among equals, the German-Italian economic relationship rather turned to subordination, with Fascist Italy taking a minor role, can be demonstrated with the development in those countries, which departed from the general trend. In Austria and Hungary, Italy was actually able to increase its share in trade (see Table 11). However, in light of the analysis of the bilateral German-Italian economic relationship between 1934 and 1936 (see Chapter 4), it seems that this trade development was not due to Italy's own strength, but rather due to the financial leeway it owed to the massive extension of commercial relations with Germany. The very generous facilitation of Italian goods, which to a large extent fulfilled no essential need in Germany, but were rather prioritised to ensnare a potential political ally, provided Italy with the revenues needed to support its preferential bloc with Austria and Hungary. Without the indirect financing of Germany, it would have been very difficult to sustain the preferences of the Rome protocols. Already in 1936, the German newspaper *Rhein NSZ Front* pointed out in looking at the Rome protocols that, "if Germany retreats because its rightful place was threatened, it would be the sudden and sweeping bankruptcy of this [...] little natural friendship".<sup>1175</sup> The Hungarian Minister of Trade Etienne

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<sup>1173</sup> DG Tirana to AA, 30 Oct 1935, PA-AA, R88.657.

<sup>1174</sup> DB Rom to AA, 3 Jul 1936, PA-AA, Rom-Quirinal 918A; Roselli, *Italy and Albania*, p. 58.

<sup>1175</sup> 'Römische Donauhoffnungen', *Rhein NSZ Front*, 31 Mar 1936.

De Winckler, too, deemed the Austrian and Italian market too small to consume the Hungarian surplus.<sup>1176</sup> Therefore, the Hungarian government would not consider a common market that excluded Germany.<sup>1177</sup>

To the evidence for Italian subordination can be added the case of Bulgaria, which illustrates how Germany took over Italy's commercial positions. A triangular deal between the *Reichsbank*, the Bulgarian National Bank (BNB) and the *Banca Commerciale Italiana* (BCI) provides an instructive example not only of the takeover of commercial positions, but also of the interaction of the bilateral dimension with the Southeastern European dimension of the German-Italian economic relationship. The latter institute was throughout the 1920s one of the main actors and financiers of Italy's commercial expansion into Southeastern Europe and Bulgaria.<sup>1178</sup> While initially the BNB was a reliable debtor, it increasingly missed its payment agreements in the years before the onset of the world economic crisis. The thereby-accumulated debt was then frozen after Bulgaria imposed foreign exchange controls as a means to protect its economy. At the same time, Germany's commercial campaign after 1933/34 stimulated imports from Bulgaria,<sup>1179</sup> which consequently led to an increasing Bulgarian current account surplus.<sup>1180</sup>

In this triangular composition of debt – with the BCI as a creditor to the BNB, and the latter in turn as a creditor to the *Reichsbank* – Rome pushed in February 1936 for a deal to use BCI's balance in Bulgaria to purchase urgently needed German coal. Italy's energy shortage became particularly dramatic when Mussolini declared his war campaign in Ethiopia in 1935, which not only created higher demand, but also provoked sanctions by League of Nations members.<sup>1181</sup> Britain cut its coal exports to Italy, which made way for an even higher share of Germany's coal exports. The plan for the deal was that BCI's balance at the BNB would be compensated for by BNB's Reichsmark surplus. This operation enabled the BCI to grant 2 million RM to the Italian state monopoly for coal, located within the state railway, which

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<sup>1176</sup> In 1936 there was talk about the extension of the Rome Protocols into a customs union. See 'Zollunionspläne im römischen Block', *Kölnische Zeitung*, 24 Apr 1936.

<sup>1177</sup> DG Budapest to AA, 3 Mar 1934, PA-AA, R240.910.

<sup>1178</sup> Cf. Di Quirico, *Building on borrowed bricks*, pp. 61-88.

<sup>1179</sup> Cf. M. Wien, *Markt und Modernisierung: Deutsch-bulgarische Wirtschaftsbeziehungen 1918-1944 in ihren konzeptionellen Grundlagen* (München, 2007), pp. 79-83. Between 1932 and 1936, German imports from Bulgaria rose by 67 per cent, while Bulgaria's total export rose only by 15,6 per cent. See Boelcke, *Deutschland als Welthandelsmacht*, p. 51.

<sup>1180</sup> BCI, 'promemoria', n.d., Archivio Storico Banca d'Italia, Rapporti con l'Estero n. 107, fasc. 3.

<sup>1181</sup> For an evaluation of the sanctions' impact by Fascist Italy's foreign exchange dictator, see Guarneri, *Battaglie economiche*, pp. 483-545.

could then be used to buy coal in Germany.<sup>1182</sup> In return, the Italian state compensated the BCI in Lire.<sup>1183</sup> It seems that this triangular deal set a promising precedent in the region because a similar arrangement with the national bank of Albania was suggested already before the negotiations over Bulgaria were concluded.<sup>1184</sup>

What at first glance looked like a win-win situation for every participant is on closer inspection not so. Apparently, Bulgaria benefited the most, as it was not only able to boost its exports with German demand, but also got rid of its debt to the Italian BCI. Germany, then, was able to retroactively finance its imports. However, the deal included rising exports of coal to Italy, and for this commodity an already strong demand existed from the German industry running at full capacity to satisfy the rearmament plans of the Nazi Government. For Italy, finally, the deal was considerably more than a creative way to finance its coal imports. Additional financial resources were badly needed to guarantee its energy supply. Without energy supply, Rome's proclaimed destiny as a major European power was under threat. To some extent, it can be argued that Italy had to sell its assets in Bulgaria as a result of its growing dependence on Germany.

Italy's share in Bulgaria's trade was marginalised until 1936. In 1929, Italy was with 10.7 per cent market share still the second-largest supplier of Bulgaria, right after Germany with 22 per cent. In 1935, its share was reduced to 3.1 per cent while Germany provided 53.5 per cent of Bulgaria's imports (see Table 11). The MAE noticed that, "like in all other countries of Southeastern Europe", in Bulgaria "German steamships, optimally equipped [...] landed weekly in Burgas and Varna to unload remarkable amounts of goods".<sup>1185</sup> The director of the Bulgarian branch of the *Banca Commerciale Italiana*, Cesare Merzagora, concluded that Germany undoubtedly had gained its leadership position in the markets of Southeastern Europe thanks to two institutional features of its foreign trade: a cost-cutting infrastructural connection with the region, and the wide-ranging facilitations to pay for goods profiting from clearings, blocked funds and preferences.<sup>1186</sup> As this chapter has shown, in the construction of both features the Italian example was an important source of inspiration.

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<sup>1182</sup> Deutsche Verrechnungskasse to AA, 5 Mar 1936, PA-AA, R117.334.

<sup>1183</sup> BCI to MCom, 18 Feb 1936, Archivio Storico Banca d'Italia, Rapporti con l'Estero n. 107, fasc. 3.

<sup>1184</sup> 'Pagamento dei crediti vantati dal Gruppo Comit verso la Banca Nazionale Bulgara', 21 Feb 1936, Archivio Storico Banca d'Italia, Rapporti con l'Estero n. 107, fasc. 3; Banca d'Italia to BCI, 21 Feb 1936, *ibid.*

<sup>1185</sup> MAE, 18 Oct 1936, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1186</sup> Iaselli, *L'espansione economico-finanziaria*, p. 222.

*Table 11: Development of Germany's and Italy's trade with Southeastern Europe 1929-1936 (in percentage quotas of total imports and exports)*

<b>Yugoslavia<sup>(1)</sup></b>	Exports 1929	Exports 1935	Imports 1929	Imports 1935
Germany	8.5	18.7	15.6	16.2
Italy	24.9	16.7	10.8	10.0
<b>Bulgaria<sup>(1)</sup></b>	Exports 1929	Exports 1935	Imports 1929	Imports 1935
Germany	29.9	48.0	22.2	53.5
Italy	10.5	8.8	10.7	3.1
<b>Hungary<sup>(2)</sup></b>	Exports avg. 1925-30	Exports 1936	Imports avg. 1925-30	Imports 1936
Germany	11.6	26.5	18.3	24.4
Italy	6.2	14.1	4.8	8.0
<b>Austria<sup>(1)</sup></b>	Exports 1929	Exports 1935	Imports 1929	Imports 1935
Germany	15.7	15.6	20.8	16.6
Italy	9.0	14.3	3.7	4.7
<b>Albania</b>	Exports 1930	Exports 1936	Imports 1929 <sup>(3)</sup>	Imports 1936 <sup>(3)</sup>
Germany	* <sup>(5)</sup>	* <sup>(5)</sup>	4.9	6.1
Italy	59.8 <sup>(4)</sup>	66.6 <sup>(4)</sup>	46.2	24.9
<b>Romania<sup>(1)</sup></b>	Exports 1929	Exports 1935	Imports 1929	Imports 1935
Germany	27.6	16.5	24.1	24.4
Italy	7.7	16.2	6.9	7.8

\* negligible

Sources:

(1) 'Die Wirtschaftsverflechtung Mittel- und Südosteuropas', *Eildienst* 6, 123 (29 May 1936), PA-AA, R105.360.

(2) LoN, 'Financial Position of Hungary in the Third Quarter of 1936', 20 Oct 1936, ASMAE, Società delle Nazioni, busta 79.

(3) Monroe, *The Mediterranean*, p. 253

(4) A. Roselli, *Italy and Albania: financial relations in the fascist period* (London, 2006), p. 58.

(5) H. Gross, *Südosteuropa: Bau und Entwicklung der Wirtschaft* (Leipzig, 1937), p. 228.



## Chapter 9: Beyond Europe – Co-operation and Rivalries in the *Mare Nostrum*

### *Introduction: Separated Spaces?*

The analysis of German-Italian economic rivalries and collaboration in Southeastern Europe has with the cases of Yugoslavia and Albania provided evidence that even Fascist Italy's more exclusive sphere of economic interest was potentially under threat by Nazi Germany's commercial expansion. To further investigate this conflict, one spatial concept seems to offer particularly relevant findings because of its crucial importance for Fascist Italy's desire to become a major power: the *Mare Nostrum*.<sup>1187</sup> With this notion, Fascists evoked their alleged strong bond with the Roman Empire, where the term had been used to describe the Mediterranean Sea.<sup>1188</sup> In the 1930s and 1940s, the exact boundaries of *Mare Nostrum* were quite blurry and comprised territories in Africa and the Middle East, which did not necessarily have a Mediterranean coastline. A central target of Fascist Italy's expansionist efforts, the Eastern Mediterranean is thus especially suitable to contrast the described development in the bilateral German-Italian economic relationship and in Southeastern Europe. The 1932 voyage of the Italian Orientalist Santi Nava in search of economic opportunities, which led him to Turkey, Egypt, Palestine and Iraq, coincides with the country sample of this chapter.<sup>1189</sup>

The Eastern Mediterranean had much in common with Southeastern Europe.<sup>1190</sup> Both regions belonged to an empire until the end of World War I (Austria-Hungary, Ottoman Empire) and turned into a political battlefield where the remaining powers competed for influence.<sup>1191</sup> They experienced a restructuring of their markets when the post-war order drew new borders. As in Southeastern Europe, strong German business and commercial interest ceased with the Great War,<sup>1192</sup> thus creating new economic opportunities. This added to the

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<sup>1187</sup> Part II, Chapter 6 has shown that in the German-Italian co-ordination of preferential treatments, German representatives acknowledged the Eastern Mediterranean as Italy's given sphere of influence.

<sup>1188</sup> Cf. J. Arthurs, *Excavating modernity: The Roman past in fascist Italy* (Ithaca, 2012).

<sup>1189</sup> MAE to MCom, 15 Apr 1932, ASMAE, AC, Italia, 1932. Although Iraq has no Mediterranean coastline, it has been included in the analysis. The reason is that not only foreign economic policy makers in Germany and Italy saw it as part of the economic area at the Levant because of its former belonging to the Ottoman Empire and many infrastructural connections with the states bordering the Mediterranean.

<sup>1190</sup> Cf. K. Kaser, 'Der Balkan und der Nahe Osten. eine gemeinsame Geschichte', *Südost-Forschungen*, 69/70 (2010/2011), pp. 397-430.

<sup>1191</sup> Cf. S. Nava, *Processo evolutivo delle relazioni fra gli Stati Balcanici e medio-orientali* (Firenze, 1940).

<sup>1192</sup> Already during World War I, Hugo Stinnes, who was to become one of the most powerful and wealthy

image as “transitional” markets, where more mature western economies could hope to benefit from development efforts in infrastructure and nascent industries and to increase their raw material imports.<sup>1193</sup>

*Table 12: Germany’s and Italy’s trade with the Eastern Mediterranean 1929-1937 (in percentage quotas of total imports and exports)*

<b>Egypt</b>	Exports 1929 <sup>(1)</sup>	Exports 1937 <sup>(2)</sup>	Imports 1929 <sup>(3)</sup>	Imports 1936 <sup>(3)</sup>
Germany	5.9	8.6	7.3	11.1
Italy	6.9	6.2	9.8	3.5
<b>Turkey</b>	Exports first half 1929 <sup>(4)</sup>	Exports 1936 <sup>(5)</sup>	Imports 1929 <sup>(3)</sup>	Imports 1936 <sup>(3)</sup>
Germany	13.1	51	15.3	45.1
Italy	19.0	3.7	12.5	2.2
<b>Palestine<sup>(6)</sup></b>	Exports 1930	Exports 1934	Imports 1930	Imports 1936
Germany	10.7	18.7	10.9	14.6
Italy	0.9	0.6	3.6	0.6
<b>Iraq<sup>(7)</sup></b>	Exports 1932	Exports 1936	Imports 1932	Imports 1936
Germany	1.5	2.8	3.8	6.5
Italy	*	*	3.7	0.6

\*negligible

Sources:

(1) Statistisches Reichsamt, ed., *Statistisches Handbuch der Weltwirtschaft* (Berlin, 1936), p. 316.

(2) Institut für Weltwirtschaft an der Universität Kiel, ed., *Statistische Materialien über den Außenhandel Ägyptens* (Kiel, 1941), p. 1a.

(3) Monroe, *The Mediterranean*, p. 253

(4) ‘L’Italia al primo posto nei commerci con la Turchia’, *Tribuna*, 1 Jan 1930 (referring to Turkish statistics).

(5) Turkish Statistical Institute, ed., *Statistical Indicators 1923-2012* (Ankara, 2013).

(6) Office of Statistics Jerusalem, ed., *Statistical Abstract of Palestine 1937-38* (Jerusalem, 1938), p. 79.

(7) J. Sassoon, *Economic policy in Iraq, 1932-1950* (London, England, Totowa, N.J, 1987), pp. 193-194.

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businessmen of the Weimar Republic, suggested to the German government that it should strive for a customs union with Austria, the Balkans, Turkey and Arabia. See Stinnes to Geheimrat Clemen (Rheinprovinz), 19 April 1915, Archiv für Christlich-Demokratische Politik, I-220-038/3.

<sup>1193</sup> Cf. Di Quirico, *Building on borrowed bricks*, p. 62; Mussolini was convinced that all countries in the Eastern Mediterranean were going through a phase of development transition. See Arielli, *Fascist Italy*, p. 17.

While in Southeastern Europe the former territories of an empire became independent states, in the Eastern Mediterranean several countries were given as mandates under the supervision of the League of Nations to western colonial powers.<sup>1194</sup> Nevertheless, in spite of differences regarding political status, in both regions the League also played an important role as facilitator of economic activities. German and Italian representatives at the League not only discussed commercial preferences for the Southeastern European states in crisis, they also pursued their shared goal to secure in Geneva an “open door” to the markets of the Levant. At a time when international awareness about the impact of oil on economic, military and political power grew rapidly, and pipelines connected the Middle East with the Mediterranean shores,<sup>1195</sup> representatives from resource scarce Germany and Italy fought for strict equal treatment on the markets and a time limit for mandatory rule.<sup>1196</sup> Needless to say, tensions thereby increased, especially between Italy on the one hand and Britain and France on the other.<sup>1197</sup>

Where the economic area of Southeastern Europe (or its variations like *Mitteleuropa* or *Europa Danubiana*) ended, and where the Eastern Mediterranean began, was not clearly defined, and accordingly many of the institutions shaping foreign economic policies transcended the border. In Germany, the MWT, Germany’s major association promoting the idea of an integrated economic area between Germany and Southeastern Europe, had a common office in Berlin with the *Orient-Verein*, an association which extended the aims of the MWT into the Middle East.<sup>1198</sup> Moreover, on one of his last business trips as president of the *Reichsbank*, Hjalmar Schacht travelled in 1936 to Vienna, Belgrade, Sofia and Budapest, but also to Ankara and Baghdad. With the trip, labelled by the *Deutsche Allgemeine Zeitung* an “economic crusade”,<sup>1199</sup> Schacht intended to adjust the imbalances which had occurred in the clearings Nazi Germany had established as part of the “new plan”, and where apparently similar problems had occurred in both regions. In the US, where the strongest opponents to the “new plan” fought against the international acceptance of Nazi Germany’s trade bilateralism, the Council of Foreign Relations detected the same trade pattern “in the Danube

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<sup>1194</sup> Cf. Osterhammel and Petersson, *Geschichte der Globalisierung*, p. 77.

<sup>1195</sup> See T. Mitchell, *Carbon democracy: Political power in the age of oil* (London, New York, 2011), p. 10.

<sup>1196</sup> DB Rom to AA, 4 Feb 1931, PA-AA, Rom-Quirinal 802A. Cf. Pedersen, ‘The Meaning of the Mandate System’, pp. 560-582.

<sup>1197</sup> See Knox, *Hitler’s Italian allies*, p. 9. Cf. C. Dipper, ‘Mare nostrum und British Interest. Das Mittelmeer in der Zwischenkriegszeit’, *Trierer Beiträge*, 13 (1983), pp. 44-53.

<sup>1198</sup> See Thörner, *Der ganze Südosten*, p. 394.

<sup>1199</sup> ‘Dr. Schachts Südostreise’, *Deutsche Allgemeine Zeitung*, 4 Jul 1936.

basin and the Near East”.<sup>1200</sup> Furthermore, the *Technische Union*, a private sales organisation of the German metallurgical industry, traded machines in exchange for raw materials and opened according to a suspicious judgement of the Fascist Italy’s *polizia politica* branches in Yugoslavia and Bulgaria, but also in Turkey and Persia. “Thereby, it realises step by step the famous plan Hitler-Göing-Schacht”.<sup>1201</sup>

In Italy, too, institutions governing foreign trade blurred the border between Europe and Asia. The office of Italy’s export institute INE that dealt with the Danube countries, was also responsible for the Middle East.<sup>1202</sup> One of the most prominent institutions of Italy’s commercial connection with the Eastern Mediterranean was the *Fiera di Levante* (Levant Fair, FDL), which planned to transform the Southern Italian city of Bari into a “bridgehead to the orient”.<sup>1203</sup> To some extent, Bari was supposed to facilitate as a commercial and cultural hub Italy’s expansion into the Eastern Mediterranean like Trieste took on this role for Southeastern Europe.<sup>1204</sup> However, when the FDL first opened its doors in September 1930, the German consulate in Naples recognised that mostly representatives from Albania, Bulgaria and Hungary presented their countries’ products, while “no oriental merchant was seen”.<sup>1205</sup> The FDL, which was in the eyes of German authorities at least as much a political manifestation praising Fascist Italy’s international importance as it was a trade fair, attracted more exhibitors from the Eastern Mediterranean in the following years, but it likewise kept on courting for visitors from Romania, Hungary and Austria. There, the president of the FDL planned to open propaganda offices to react to dwindling enthusiasm for yet another trade fair at times of economic depression.<sup>1206</sup> That the already-addressed *Imprese Italiane All’Estero*, a consortium of major Italian manufacturers for foreign investments, was in addition to Southeastern Europe active in Egypt and Turkey, with the latter being temporarily its most promising

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<sup>1200</sup> Hamilton Fish Armstrong, ‘Danubia: Relief or Ruin’, Council on Foreign Relations, Princeton University, Box 668.

<sup>1201</sup> Polizia Politica Roma, 8 Feb 1937, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 44. The German Government dissolved the *Technische Union* quite soon after it came into existence. Apparently, its private version of bartering agreements was not in compliance with the official rules governing foreign trade and payments, and which were rigorously controlled by government authorities. See Kube, *Pour le mérite*, pp. 181-182.

<sup>1202</sup> INE, ‘Commercio Estero’, April 1932, Archivio Storico Banca d’Italia, Carte Beneduce, cart. 283.

<sup>1203</sup> Presidenza Fiera del Levante to DB Rom, 14 Nov 1929, PA-AA, R241.476. Another propaganda institution based in Bari, the broadcaster *Radio Bari*, transmitted its programme in Arabic and three Eastern European languages. Cf. Monroe, *The Mediterranean*, pp. 198-199; J. Herf, *Nazi propaganda for the Arab world* (New Haven [Conn.], 2009), p. 6.

<sup>1204</sup> Ministero dell’Educazione Nazionale, 17 Sep 1931, ASMAE, AC, Italia, 1930-31.

<sup>1205</sup> GK Neapel to AA, 16 Oct 1930, PA-AA, R241.476.

<sup>1206</sup> MAE to MCorp, 26 May 1931, ASMAE, AC, Italia, 1930-31; MAE to MCorp, 28 May 1931, ASMAE, AC, Italia, 1930-31.

market, shows that also among private business representatives the two regions were grouped into one cluster.<sup>1207</sup>

Not only were the borders between the two economic areas unclear, but Italian foreign trade experts also developed trade policies that aimed at integrating Southeastern Europe and the Eastern Mediterranean. It has been outlined already that Italy made significant commercial concessions to its partners of the Rome protocols in order to support a pro-fascist stance. Yet, in order to actually make use of the large amount of Austrian timber it had committed to purchase in the protocols, an Italian organisation was founded that marketed Austrian wood in Palestine, Persia, Egypt and the Arab peninsula. As a pleasant side effect, this distribution chain brought more demand to the shipping business of Trieste.<sup>1208</sup> In addition to Austrian timber reaching the Eastern Mediterranean via Italy, Italian trade experts used the mechanism of the Rome protocols to export Italian goods destined for the Turkish market via Austria, thus creating greater export opportunities within the framework of Turkish compensation agreements (further addressed below).<sup>1209</sup>

Given this spatial overlap, it is quite surprising that the historiography of the “brutal friendship” between Nazi Germany and Fascist Italy has paid considerably less attention to the rivalries occurring in the Eastern Mediterranean than it did to the conflicts in Southeastern Europe. One reason for this bias seems to be that prior studies usually approached the conflicts from a more “classical”, diplomatic history point of view. While these studies touched on economic aspects only *en passant*, they rightly deemed the development in Southeastern Europe as more relevant.<sup>1210</sup> From this perspective, Fascist Italy’s aspirations for a Mediterranean empire rather stood in conflict with the two major remaining colonial powers: Britain and France. Hitler and the strategists of the NSDAP explicitly stated that the Mediterranean was the “natural area” of Italian expansion.<sup>1211</sup> When tensions between Nazi Germany and Fascist Italy over independent Austria ran high, Ambassador von Hassell suggested that, “it would be psychologically appropriate to acknowledge Italy’s natural right, and to express practical sympathy for the development of Italy in the Mediterranean”.<sup>1212</sup> Hassell’s suggestion, which basically assigned to Germany the role of a passive supporter of

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<sup>1207</sup> Banco di Roma to MAE, 21 Feb 1931, ASMAE, AC, Italia, 1930-31.

<sup>1208</sup> AA to DB Rom, 29 Dec 1933, PA-AA, R240.889/1; DG Wien to AA, 6 Nov 1933, PA-AA, R240.889/1.

<sup>1209</sup> Comitato di Coordinamento per gli Affari Economici, 9 Mar 1936, ASMAE, AC, Italia, 1936, pos. 29-54.

<sup>1210</sup> Typical for many other studies that followed this perspective is Petersen, *Hitler-Mussolini*.

<sup>1211</sup> G.L. Weinberg, *Hitlers zweites Buch. Ein Dokument aus dem Jahr 1928* (Stuttgart, 1961), p. 177; cf. Kube, *Pour le mérite*, p. 78.

<sup>1212</sup> DB Rom to AA, 12 Jun 1934, PA-AA, R30.251.

the Italian expansion without declaring any German interest, coincided according to the Anglophone historiography with the role Mussolini attached to his potential ally in the north.<sup>1213</sup>

Contrary to diplomatic historiography, studies focusing on the economic side of expansionist aspirations detected less harmony between German and Italian representatives on the markets of the Eastern Mediterranean. Canali<sup>1214</sup> with an Italian, and Kockel<sup>1215</sup> with a German perspective, have focused on oil policies in the Middle East. Both provide hints that co-operation between German and Italian stakeholders in the consortium to exploit Iraq's oil was fraught with difficulties, without further investigating the roots of the conflict.

There was much at stake for Italy's commercial interest, despite the fact that the turnover of commerce with the Eastern Mediterranean always remained below the levels reached with major European or American trade partners. Yet, with most countries of the region, Italy had at least an even balance of trade if not a surplus, an achievement as necessary for a country with dire foreign exchange reserves as it was a satisfaction for a regime that almost obsessively fought against deficits in trade.<sup>1216</sup> In addition to trade on favourable terms, several Italian banks, shipping and insurance companies had identified the Eastern Mediterranean as a favourite destiny for foreign investment.<sup>1217</sup> In the finance industry, the seizure of German foreign property in the aftermath of World War I had created opportunities for competitors of the once strongly involved German banks like *Deutsche Bank* or *Deutsche Orientbank*. The latter, before the war one of the largest banks of the Ottoman Empire, was only re-established in 1924, but eventually was taken over by the *Dresdner Bank* when the shock-waves of the German and Central European banking crisis of 1931 reached Turkey.<sup>1218</sup> The Italian banks, which helped to stabilise the failing German institution,<sup>1219</sup> were

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<sup>1213</sup> With this argument Anglophone historiography, and especially MacGregor Knox, stands to some extent in contrast with Italian historiography. See M. Knox, *Mussolini unleashed, 1939-1941: Politics and strategy in fascist Italy's last war* (Cambridge, New York, 1982), p. 286. Italian historiography denies any further intentions of Mussolini's foreign policy in the Eastern Mediterranean beyond opportunistic manoeuvres in search of concessions from its naval rivals France and Britain. Cf. Arielli, *Fascist Italy*, pp. 1-4. Also Krüger, when he observed the Italian *Großwirtschaftsraum* (greater economic area) in 1932, saw a deadlock of Italian colonial aspirations as major reason for an expansion into the Middle East. See Krüger, *Deutsche Großraumwirtschaft*, p. 61.

<sup>1214</sup> Canali, *Mussolini e il petrolio iracheno*.

<sup>1215</sup> Kockel, *Deutsche Ölpolitik*; Mejcher, *Die Politik und das Öl*.

<sup>1216</sup> See, for instance, the constant attacks against the deficit in trade with Germany as described in part I.

<sup>1217</sup> Arielli, *Fascist Italy*, p. 84.

<sup>1218</sup> BdI Berlino, 'La Deutsche Orientbank', 5 Sep 1931, Archivio Storico Banca d'Italia, Segretaria Particolare, cart. 225. Cf. W.G. Schwanitz, *Gold, Bankiers und Diplomaten: Zur Geschichte der Deutschen Orientbank 1906-1946* (Berlin, 2002).

<sup>1219</sup> BdI, 'Orientbank', 18 Sep 1931, Archivio Storico Banca d'Italia, Fondo Studi, cart. 153, fasc. 1.

performing relatively well at the beginning of the 1930s. In 1931, the *Banco di Roma* presented to the Italian ministry of finance a plan to bring via its branch network the gold lira to the markets of Syria, Turkey, Egypt and Palestine. Scheduled for 1932, the introduction of the new currency would coincide with the tenth anniversary of Mussolini's march on Rome and equip Italy with a "formidable and sustainable means of propaganda".<sup>1220</sup>

Beyond the co-operation of banks, the German newspaper *Der Tag* expressed early in 1932 hopes that the newly found mixed commission of German-Italian producers (see Chapter 2) could help to "develop new markets, eliminate aimless rivalries and support extraordinarily the mutual economy". Especially interesting would be the regions with a "natural predominance" of the North Italian industry: Turkey, Egypt, Arabia.<sup>1221</sup> Almost simultaneously, Mussolini wrote in a commentary for the *Berliner Börsen-Courir* on international economic support for Austria that the small neighbour would be only of very limited economic importance for Germany. "Instead, its big markets extend along the Danube till the Black Sea and the shores of the Mediterranean", and therefore it would be important to jointly facilitate "the flourishing of those countries, which would create advantages for all".<sup>1222</sup> In Turkey, initiatives for co-operation, as *Der Tag* expected from the mixed commission, seemed possible. However, Mussolini's prediction was soon challenged by Nazi Germany's commercial expansion in Turkey.

### ***1. Joint Manoeuvres in Turkey***

In stark contrast to the Ottoman period, the Turkish republic had the reputation of juvenile verve and will for change. Alfred Sohn-Rethel, economist at the lobby organisation MWT, and after World War II a major theorist of the relationships between German big business and National Socialism, wrote in 1934 that the "system of political rule in Turkey is to a large extent similar to the fascist systems in Italy or Germany". However, as an important difference, "fascism in Turkey takes place at a time the society enters the same historical era, which fascism in the two other countries brings to an end".<sup>1223</sup> That its economy had a bright

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<sup>1220</sup> Banco di Roma to MFin, 31 Oct 1931, ASMAE, AC, Italia, 1932.

<sup>1221</sup> 'Wirtschaftliche Zusammenarbeit zwischen Deutschland und Italien', *Der Tag*, 29 Mar 1932.

<sup>1222</sup> B. Mussolini, 'Rettet Donau-Europa!', *Berliner Börsen-Courir*, 17 Apr 1932.

<sup>1223</sup> A. Sohn-Rethel, 'Die neue Türkei', *Das neue Reich und das Ausland*, 1 (1934), pp. 11-13, 12. For an analytical assessment of Turkish corporatism see N. Onder, 'Turkey's experience with corporatism' (MA thesis Wilfrid Laurier University, 1990); W.M. Hale, *The political and economic development of modern Turkey* (London, 1981). For the impression Atatürk left on Hitler, cf. S. Ihrig, *Atatürk in the Nazi imagination*

future was a widespread notion in both Germany and Italy. The young republic, which had asserted its independence against colonial aspirations on behalf of the victorious powers of World War I, and fought in Geneva with Italian and German support for a full acceptance to the Commission of Enquiry for European Union,<sup>1224</sup> provided an open market and a crucial gateway to the East. It captured especially the imagination of those economic and political elites who sought new commercial opportunities to find a way out of the economic crisis. Rich in various minerals, Turkey have the potential to become an important supplier of the German industry. Vice versa, the rapidly developing country offered large opportunities for investments in its expanding transportation network (ports and railways). As reported by Sohn-Rethel, Germany's biggest advantage was that, "it is the only industrial nation, which is close to the Near East, and at the same time not suspected of imperialist endeavours".<sup>1225</sup>

The aspect of colonial legacy was less advantageous for Fascist Italy. It had invaded the Dodecanese islands right in front of Turkey's west coast in the Italian-Turkish war (1911-1912) and ever since had to cope with Turkish suspicions accusing Rome of pursuing territorial claims on Anatolia. In 1924, Mussolini declared that, "Italy cannot but go to the Orient, in the West there are defined national structures".<sup>1226</sup> Yet, political tensions decreased during Dino Grandi's term as Italian foreign minister (1925-32) who, as reported by the *Deutsche Tageszeitung*, promoted Turkey's role in the Eastern Mediterranean by making it a facilitator for Italy's relations with the "Mohammedan states of Asia and Africa".<sup>1227</sup> Certainly, an improvement of political relations was supported by the diverse and extensive commercial relationship, which, according to Grandi, would demonstrate the "Italian-Turkish friendship and joint action".<sup>1228</sup> Till 1926, Italy was Turkey's number one trading partner. Germany was increasingly catching up (especially in Turkish imports) while Britain and France occupied further ranks. In shipping, Italian vessels dominated the market and in 1928 even transported with 215,000 tons significantly more than the Turkish commercial fleet, with 135,000 tons.<sup>1229</sup>

This domination was challenged when around the onset of the world economic crisis Turkish attempts at protectionism met with renewed vigour. The German embassy called

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(Cambridge, Mass., 2014).

<sup>1224</sup> Meeting Grandi-Suad Bey, 15 Apr 1931, ASMAE, Archivio Grandi, busta 22, fasc. 90, sottofasc. 33. Cf. Barlas and Güvenç, 'Turkey and the Idea of a European Union', pp. 425-446. See for German-Italian co-operation at the Commission of Enquiry for European Union, also Part II, Chapter 6.

<sup>1225</sup> A. Sohn-Rethel, 'Die neue Türkei', *Das neue Reich und das Ausland*, 1 (1934), pp. 11-13, 12.

<sup>1226</sup> Consiglio Provinciale dell'Economia Corporativa di Venezia, 3 Dec 1932, ASMAE, AC, Italia, 1933.

<sup>1227</sup> 'Der Besuch Grandis in Angora', *Deutsche Tageszeitung*, 14 Dec 1928. Cf. Arielli, *Fascist Italy*, p. 19-32.

<sup>1228</sup> Grandi, 13 Jan 1931, ASMAE, Archivio Dino Grandi, busta 27, fasc. 91.

<sup>1229</sup> 'L'Italia al primo posto nei commerci con la Turchia', *Tribuna*, 1 Jan 1930.



Turkey the country of “administrative protectionism” par excellence.<sup>1230</sup> Stakeholders in Turkey’s import business had to tackle obstacles such as unpublished customs regulations, which most countries raised to protect domestic industries, but which appeared to be particularly widespread in Turkey. As in so many other cases the trade balance became a matter of dispute. Italian and Turkish authorities quoted their respective statistics, which presented a contradictory picture of deficit and surplus, to legitimise action against the present state of the commercial relationship.<sup>1231</sup> The *Banca Commerciale Italiana* (BCI), one of the leading institutions of Italy’s international commercial expansion, called on the Italian government to keep the door open to one of Italy’s most vital markets.<sup>1232</sup> Also Turkey had a genuine interest in improved trade relations because the downfall of commodity prices in the run-up to the world economic crisis had dramatically reduced its export revenues.<sup>1233</sup> Therefore, to solve the conflict a new institutional basis of commerce had to be found.

In August 1929, Turkey and Italy agreed on a *modus vivendi* to reciprocally guarantee most-favoured-nation status in trade and shipping. However, the ultimate goal, a full-fledged commercial contract, was not achieved and made subject to further negotiations. While the *modus vivendi* was a dubious success for Rome, the AA identified it as a potential model for its own upcoming commercial negotiations with the Turkish government. In particular, the German embassy hoped that the regulations that facilitated commercial shipping under the Italian flag could be as well incorporated into a German-Turkish commercial contract. “A close collaboration with the Italians, which does not need to become visible to the Turks, is recommended”.<sup>1234</sup>

According to *Il Giornale d’Italia*, Italian companies could learn from German practices, too. The recent success, which had made Germany the chief supplier of the Turkish economy, was based on a “potent industrial organisation, which enables them to produce at lower cost than the competitors”. What was more, the German companies active in Turkey employed specialists who were trained in the “psychology of Turkish finance and economics” and who were sent from Germany to conduct business negotiations on the ground. However, while both German and Italian representatives showed interest in learning about each other’s commercial measures, *Il Giornale d’Italia* revealed that this interest was not suitable to

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<sup>1230</sup> DB Istanbul to AA, 27 Feb 1929, PA-AA, R118.455.

<sup>1231</sup> DB Rom to AA, 23 Jan 1930, PA-AA, R240.906.

<sup>1232</sup> Smend (AA) to Richthofen (AA), 17 Jan 1929, PA-AA, Rom-Quirinal 926b.

<sup>1233</sup> See D. Barlas, ‘German Economic Domination in the Balkans in the 1930s’, *Turkish Review of Balkan Studies*, 2 (1994/95), pp. 135-145, 6.

<sup>1234</sup> DB Istanbul to AA (strictly confidential), 10 Oct 29, PA-AA, R105.433.

enhance co-operation. On the contrary, the article demanded that Italian “exporters should make every effort to regain the primacy Germany has taken from us”.<sup>1235</sup>

To put this demand into practice, the BCI undertook a large-scale financial effort. After it had already exerted pressure to come to terms with a new Italian-Turkish commercial contract, in February 1930 it negotiated directly with the Turkish government over a loan of one million pound sterling. That the loan was denominated in sterling highlighted, according to *Tribuna*, its purpose as a means to protect the value of the Turkish currency without any further reservations. “Turkey is free to dispose of the sum as it deems best”, reassured the newspaper temporarily owned by the BCI.<sup>1236</sup> However, as revealed by the *polizia politica*, the supportive measure was of a twofold nature. Beyond the Turkish currency, it aimed at supporting “the business of supply and exchange”, and many Italian industrialists had already contacted the BCI hoping that their products could find greater acceptance on the Turkish market.<sup>1237</sup>

The following laborious negotiations regarding the loan, which strung out for years, show that the report of the *polizia politica* was accurate in its description of the real intentions. Apparently, the Italian finance ministry took the view that no foreign loan should be granted if it was not to be used entirely for acquisitions in Italy. The finance ministry considered it particularly necessary that the Turkish government lower its protectionist hurdles by extending import quotas for Italian textiles and creating greater opportunities for Italian citizens to settle in Turkey.<sup>1238</sup> Eventually, the planned loan was changed to 300 million Italian Lire, from which one-third had to be used for acquisitions in Italy. Thereby, it was officially acknowledged that the loan in the first place served the interest of the Italian economy.

The details of the Italian loan alarmed Berlin.<sup>1239</sup> The reason for German concern was that trade with Turkey had just taken a comparatively favourable development against the background of the economic crisis, and the Italian loan was considered capable of destroying the recent success. In 1931, Germany logged for the first time a surplus; thus, for the German embassy in Ankara, there was “no ground to be dissatisfied with the commercial relations

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<sup>1235</sup> ‘Gli scambi italo-turchi’, *Il Giornale d’Italia*, 27 Feb 1930.

<sup>1236</sup> ‘Un valido appoggio italiano alla Turchia’, *Tribuna*, 28 Feb 1930.

<sup>1237</sup> Polizia Politica Roma, 1 Mar 1930, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 175.

<sup>1238</sup> DB Rom to AA, 16 Nov 1932, PA-AA, R244.022.

<sup>1239</sup> DB Ankara to AA, 6 Jun 1932, PA-AA, R245.329. Another third of the loan had to be used to service old debt, whereby only one-third was at the disposal of the Turkish borrower. See K. Klinghardt, ‘Neue Wege deutsch-türkischer Wirtschaftsbeziehungen’, *Deutsche Welle*, 6 Oct 1932.

with Turkey”.<sup>1240</sup> In the new Turkish capital, however, this development met with criticism. As in the above-addressed conflict between Turkey and Italy, both governments publicly accused each other of painting a false picture of the balance of trade. While the AA asserted that Germany only ran a very small surplus, the Turkish newspaper *Milliyet* carped that Germany would import only half of what it exported to Turkey. Against this estimation, the AA filed a complaint with the Turkish ministry of economics making use of Italian statistics to show with a cross comparison that the German statistics were more adequate.<sup>1241</sup> In this tense situation, it was feared that the Italian loan offered to Turkey could be used to shift significant orders of machinery from Germany to Italy. Therefore, the German embassy submitted to Berlin the question whether Germany, too, had to stimulate exports with further loans.<sup>1242</sup>

Major German businesses supported the idea. In June 1932, *Otto Wolff*, a Cologne-based steel-maker active in several markets of the Near East, informed the German government about the foundation of the *Vereinigung zur Förderung des deutsch-türkischen Wirtschaftsverkehrs GmbH* (association for the promotion of German-Turkish commerce, VFDTW). Among other major steel-makers such as *Krupp* and *Vereinigte Stahlwerke*, the VFDTW represented the electrical engineering companies *Siemens* and *AEG*, the construction giant *Hochtief* and several trading companies. The companies reacted to a decision of the Turkish government that, in the future, Turkish imports should be financed with Turkish exports. The VFDTW explained to the AA that it was already regularly communicating with relevant Turkish authorities, but reassured them that it would pursue its goals in close liaison with the German government.<sup>1243</sup> However, the VFDTW still lobbied against too-strong government involvement in the commercial relationship. Instead of an official clearing agreement between government bodies, it supported compensation agreements between firms or business associations from both countries, which would exchange goods on commercial principles without transferring scarce foreign exchange. Yet, the VFDTW still needed assistance from the *Reichsbank*, which was asked to jump-start the system with a generous loan. The VFDTW was certain that the Turkish government would award substantial orders to

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<sup>1240</sup> DB Ankara to ZFA, 28 Dec 1931, PA-AA, R245.302; Cf. D. Barlas, *Etatism and diplomacy in Turkey: Economic and foreign policy strategies in an uncertain world, 1929-1939* (Leiden, New York, 1998), pp. 146-154

<sup>1241</sup> DB Ankara to Seref Bey (ministry of economics), 1 Mar 1932, PA-AA, R245.302.

<sup>1242</sup> DB Ankara to AA, 6 Jun 1932, PA-AA, R245.329.

<sup>1243</sup> Otto Wolff to AA, 14 Jun 1932, PA-AA, R245.302.

Germany as soon as the above-mentioned opportunity existed to ensure payments with the export of goods.<sup>1244</sup>

At first, it seemed that Italian authorities, still holding out the prospect of the 300 million Lire loan, reacted quicker to the new commercial opportunity offered with the instrument of compensations. When in July 1932 Atif Bey, the Turkish commissioner responsible for compensations, toured European capitals, he concluded a compensation deal in Rome, whereas he only held discussions in Berlin. The German embassy in Istanbul warned Berlin that it could not stand idly by and watch as other countries made progress with compensations and loans that harmed Germany. Nevertheless, the embassy also mentioned that Germany could take on the competition because of its advantages. First and foremost, Germany was Turkey's primary customer, and in the rationale of bilateral trade this was an advantage almost impossible to compensate for.<sup>1245</sup> Moreover, the aftermath of Atif Bey's voyage to Europe shows that the Turkish government was divided over the question of which trading partner should be privileged. Especially the conclusion of the large-scale compensation agreement in Rome was disapproved and rejected by the ministry of economics, because the delegation had only been empowered to investigate potential opportunities, not to actually conclude legally binding agreements.<sup>1246</sup> Finally, the German economy benefited from its export structure. Turkey's protectionist framework subjected in particular goods to quotation, which could be produced as well by domestic industries. Quotas regulated, for instance, the segment of cotton products, to which 30 per cent of Italian exports belonged. In contrast, imports of machinery necessary to build up domestic productions, were left relatively unrestricted. For the *Agenzia di Roma*, Germany's commercial success was due to its specialisation in exactly such production.<sup>1247</sup>

The system of harsh quotas and private compensations soon faced limits, which gave occasion to greater government impact on the economic relationships. In addition to surging prices, Turkish merchants complained that for larger projects the rigid import quotas could abruptly cut off supply, thus putting industrial development at risk. After a change of office at the Turkish ministry of economics had brought with Mahmud Djelal Bey, "a man of practical experience," into power, the Turkish government indicated that it would gradually open up the

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<sup>1244</sup> Otto Wolff to Reichsbank, 17 Jun 1932, PA-AA, R245.302.

<sup>1245</sup> DB Istanbul to AA, 18 Jul 1932, PA-AA, R245.302.

<sup>1246</sup> DB Istanbul to AA, 7 Aug 1932, PA-AA, R245.302.

<sup>1247</sup> 'Il commercio estero turco e gli scambi con l'Italia', *Agenzia di Roma*, 27 Aug 1932.

economy.<sup>1248</sup> In March 1933, the new Nazi government offered Turkey a foreign exchange agreement like the ones it had concluded with the Netherlands and Italy.<sup>1249</sup> Not later than August 1933, government negotiations were concluded in Berlin and created new and substantial incentives for German-Turkish commerce. While the German government selectively eased the rigid foreign exchange controls to guarantee payments for agricultural imports from Turkey, the Turkish government removed many of the quotas still holding back German vehicles, chemicals, steel- and ironware. In addition, both governments declared their commitment to the “principle of reciprocity”; that is, they would strive to develop their trade towards an even balance.<sup>1250</sup>

Shortly thereafter, the Turkish government demanded similar treatment from Italy, but faced resistance. To emphasise its demand, Ankara cancelled the *modus vivendi* it had concluded with Rome in 1929, and which it accused of facilitating the recent Italian surplus in trade. Mahmud Djelal Bey wrote in *La Turquie* that, “the Italians do not want to stoop to a conclusion of an agreement, which regulates the conditions of exchange on a fair and profitable basis”.<sup>1251</sup> Of course, an unregulated situation was not in Italy’s interest, and hence, some kind of concession had to be found. Given the similar economic structure, characterised by exports of Mediterranean agricultural goods to the north and a protectionist development of domestic industries (with Italy having a certain edge), there was not much to offer. However, there was one demand in Italy so huge that even the most optimistic supporters of autarchy could hardly deny it, and that was its shortage of energy. Therefore, the Italian government held out the prospect of coal orders in the amount of 100,000 tons for 1934 (in 1930 Italy had only imported 1,000 tons).<sup>1252</sup>

On this basis, Fascist Italy and Turkey signed a new commercial contract on 4 March 1934.<sup>1253</sup> Whereas earlier Italian-Turkish initiatives such as the *modus vivendi* of 1929 or the 300 million Lire loan had provoked a range of reactions in Berlin from recognition to concerns about falling behind, this time, no great success was expected. The German embassy in Rome considered it still comparatively threatening that Italy had committed to shift its coal orders to Turkey, thus potentially harming Germany’s major export good to Italy. Nonetheless,

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<sup>1248</sup> K. Klinghardt, ‘Neue Wege deutsch-türkischer Wirtschaftsbeziehungen’, *Deutsche Welle*, 6 Oct 1932.

<sup>1249</sup> AA to DB Ankara, 9 Mar 1933, PA-AA, R245.304.

<sup>1250</sup> ‘Die neue Aera der türkischen Handelspolitik’, *Berliner Tageblatt*, 13 Aug 1933; ‘Neues deutsch-türkisches Wirtschaftsabkommen’, *Berliner Börsenzeitung*, 11 Aug 1933.

<sup>1251</sup> Mahmud Bey, ‘Notre commerce avec l’Italie’, *La Turquie*, 18 Oct 1933.

<sup>1252</sup> DB Rom to AA, 22 Feb 1934, PA-AA, Rom-Quirinal 926b.

<sup>1253</sup> ‘La Turchia economica e la nuova convenzione commerciale italo-turca’, *Il Popolo di Roma*, 8 Apr 1934.

it assumed that the poor quality and the difficult conveyance would still have an impact on the actual orders.<sup>1254</sup> In fact, a later report confirmed that the amount of coal deliveries had been significantly reduced (instead of the projected 100,000 tons to only 30,000 tons).<sup>1255</sup> The coal orders also represented a compromise solution necessary to keep the compensation scheme running after the 300 million Lire loan finally had failed. In both countries enthusiasm for the long-term project had dwindled, and eventually the Turkish government declined the offer publicly. That the loan ended this way was according to the German embassy in Ankara “quite embarrassing”, and concluded an “unworthy chapter in the history of Italian financial and economic policy”.<sup>1256</sup>

After all, the Italian coal orders also aimed at supporting the Italian concessions in Turkey, which faced a hard time. The coal mine in Zonguldag on Turkey’s Black Sea coast, for instance, was in Italian hands. Most of the Italian direct investments in Turkey were carried out by the Imprese Italiane all’Estero (IIE). In 1935, the consortium of major Italian companies reported growing indications that Turkish authorities wished the concessions to be handed over to Turkish owners.<sup>1257</sup> Early signs of discrimination grew within one year into “a broad xenophobic movement”, according to the IIE. Especially the IIE electricity producers in Sirket and Bursa faced in 1936 a situation that jeopardised their existence. By accusing the IIE of price usury, local authorities legitimised unilateral price cuts, which were according to the IIE not legally justifiable and put the businesses under risk.<sup>1258</sup>

Nationalist Turkish fervour was also directed against the large and still-growing trade with Germany, but it appears more as a superficial line of reasoning to obtain even larger concessions in the next round of negotiations leading to closer economic integration. When in April 1936 the Turkish government negotiated new tariff rates to protect infant industries, it nonetheless extended quotas for exports from Germany. The German embassy in Ankara, in spite of its earlier concerns with the Turkish nationalistic rhetoric, considered the new regulation a significant improvement.<sup>1259</sup> During the negotiations, Numan Menemencioğlu, secretary-general at the Turkish foreign ministry, declared that Germany, “as a result of its Balkan-policy had become too strong in Turkey”. He saw his country at the crossroad where it

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<sup>1254</sup> DB Rom to AA, 22 Feb 1934, PA-AA, Rom-Quirinal 926b.

<sup>1255</sup> DB Rom to AA, 1 Jun 1934, PA-AA, Rom-Quirinal 926b.

<sup>1256</sup> DB Ankara to AA, 23 Apr 1934, PA-AA, R245.329.

<sup>1257</sup> Imprese Italiane all’Estero to MCorp, 3 May 1935, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1258</sup> Imprese Italiane All’Estero to AI Ankara, ‘Nota sulle concessioni elettriche in turchia’, 16 Jun 1936, ASMAE, AC, Italia, 1936, pos. 7-9.

<sup>1259</sup> DB Ankara to AA, 22 Apr 1936, PA-AA, R105.726.

had to choose between restricting trade with Germany and finally concluding a “union [*Anschluss*] with the German economy”. Menemencioğlu advocated the latter path, and offered proposals as to how closer integration could be carried out. For instance, the Turkish government could transfer the quotas it granted to imports from the US to imports from Germany, or re-export German goods to countries where Germany had to meet liabilities (e.g. France). Even though the proposals appeared to the AA as rather exaggerated and technically very difficult to realise, they still demonstrate how far Germany’s commercial expansion had gone in 1936 and the degree to which it was welcomed in Turkey.<sup>1260</sup> Fascist Italy, which in the 1920s had been Turkey’s main trade partner, was left behind.

## ***2. Egypt – Commercial Expansion on Ideological Tailwind?***

The market environment in Interwar-Egypt was very different from the Turkish setting. Whereas the young Turkish republic became an independent actor on the international stage with a protectionist approach to rapid domestic development, Egypt, formally independent from the British Empire since 1922, still nurtured close ties with the UK. The latter was by far Egypt’s biggest trading partner, and together with substantial capital flows and linked exchange rate policies its appeared in 1931 to contemporary analysts that although, “Egypt is not part of the British Empire [...], its monetary problems are similar to those of the Dominions”.<sup>1261</sup> According to German trade statistics, in 1931, Britain (without dominions) dominated among Egypt’s suppliers with exports worth EGP 7,135,000. While France (EGP 3,098,000) was in distant second place, Italy followed closely behind (EGP 2,890,000) and Germany ranked fourth (EGP 2,537,000).<sup>1262</sup>

Both Germany and Italy had to fight against institutional obstacles if they wanted to benefit from a market development, which even in the period between 1929 and 1937 witnessed slowed-down but nonetheless still-existing real GDP per capita growth,<sup>1263</sup> and which provided the European countries with a profitable trade surplus. At the onset of the world economic crisis, as the Egyptian government was unable to generate sufficient revenues

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<sup>1260</sup> AA, ‘Vermerk über eine Besprechung mit Exzellenz Numan Menemencioğlu’, 13-14 Apr 1936, PA-AA, R105.726.

<sup>1261</sup> Quoted in T.M. Yousef, ‘Egypt’s Growth Performance Under Economic Liberalism: A Reassessment With New GDP Estimates, 1886-1945’, *Rev Income Wealth*, 48, 4 (2002), pp. 561-579, 567.

<sup>1262</sup> DG Bulkeley to AA, 7 Oct 1933, PA-AA, R105.834.

<sup>1263</sup> Yousef, ‘Egypt’s Growth Performance’, p. 572.

with tax hikes, it developed its customs policy as a fiscal means. Countries without an official commercial contract with Egypt were obliged to pay a global 100 per cent customs surcharge. Accordingly, Germany and Italy hurried in 1930 to establish institutional frameworks for their economic relationships previously unregulated. On 25 March 1930, the German and the Egyptian government signed a provisional agreement in which both parties granted each other most-favoured-nation status, by which, “for the time the interest of Germany’s commerce is protected”.<sup>1264</sup> Italian authorities monitored this institutional development,<sup>1265</sup> and signed a similar treaty in the summer of 1930. According to the German embassy in Rome, Italy did not hesitate to accommodate Egypt’s commercial interest to the maximum extent possible as it put special emphasis on the extension of economic relations with Egypt.<sup>1266</sup>

Egypt offered not only one of the few relatively open markets with growth prospects, it also produced with cotton a commodity that still enjoyed high demand in Germany and especially in Italy.<sup>1267</sup> In addition, in both countries the established supply chain, with the US being the major raw material supplier, was called into question when the Atlantic gap widened over disputes deriving from customs protections and currency devaluations.<sup>1268</sup> The *Fiera Di Levante*, Italy’s propagandistic outpost to promote commercial relations with the Near East, was instructed to market Egyptian cotton in Italy, if necessary even with additional loans.<sup>1269</sup> Yet, the Italian advances could not prevent that with a joint initiative of German big business in the cotton trade, over the course of 1932, Germany overtook Italy among Egypt’s best clients.<sup>1270</sup> In the same year Egypt’s terms of trade improved, thanks to the price of its cotton (see Table 13).

Table 13: Egypt’s terms of trade 1931-1936 (1934 = 100)

	1931	1932	1933	1934	1935	1936
Index of average export price of cotton	92	92	94	100	107	111

Source: C. Issawi, *Egypt: An Economic and Social Analysis* (London, 1947).

<sup>1264</sup> AA, ‘Denkschrift’, n.d., PA-AA, R106.093.

<sup>1265</sup> BdI Berlino to BdI, 10 Sep 1930, Archivio Storico Banca d’Italia, Fondo Studi, cart. 29.

<sup>1266</sup> DB Rom to AA, 2 Aug 1930, PA-AA, R244.228.

<sup>1267</sup> See T.M. Yousef, ‘The Political Economy of Interwar Egyptian Cotton Policy’, *Explorations in Economic History*, 37, 4 (2000), pp. 301-325.

<sup>1268</sup> See chapter 5.

<sup>1269</sup> MAE to MCorp, 13 Jun 1931, ASMAE, AC, Italia, 1930-31.

<sup>1270</sup> DG Bulkeley to AA, 7 Oct 1933, PA-AA, R105.834.



The consortium established a plan to barter Egyptian cotton with German artificial fertilisers with a compensation agreement. Representatives of German banks, the *Stickstoff-Syndikat* (nitrogen-syndicate),<sup>1271</sup> and cotton trading houses based in Germany and Alexandria joined the consortium. It negotiated directly with the Egyptian government over a transaction worth RM 9-10 million.<sup>1272</sup> However, although the exchange seemed like a win-win-situation in view of both countries' specialisations – with the German chemical industry exporting a major primary product for Egypt's most profitable export good – the global environment of this barter agreement posed threats. The *Anglo-South American Bank*, a British and Argentinean bank, traded in Egypt with Chilean saltpetre, a natural fertiliser and cash cow till the invention of artificial fertilisers. At the time, it experienced financial distress and had to be supported by the *Bank of England*. Subsequently, the German consortium recognised that their attempt to increase the amount of fertilisers traded for cotton was halted by the Egyptian government, apparently in consideration of British commercial interest.<sup>1273</sup> Nevertheless, compared with the UK competitors, the AA only felt discriminated against when bidding for large-scale government contracts.<sup>1274</sup> Apart from that, the commercial agreement of 1930 still allowed for a relatively open access to the market.

Another marketing difficulty, the information asymmetry between company headquarters in Europe and the Egyptian market, continued to fuel discussions. The central German lobby organisation of foreign commerce, the *Reichsverband des deutschen Gross- und Ueberseehandels*, complained that German authorities would systematically favour German corporations building up their own representations in Egypt. Thereby, they would prevent specialised trading organisations in Germany from buying goods in Germany and market them together with Egyptian importers.<sup>1275</sup> The tone of the complaint already caused dissension with the AA, which felt compelled to remind the *Reichsverband*, that “our diplomatic representations have to protect the overall interest of Germany, that is, the best possible sales of our goods and not restrict themselves to represent a specific group”.<sup>1276</sup> Moreover, the German chamber of commerce for Egypt rejected the content of the complaint as well. Whereas it principally acknowledged the idea to interpose trading organisations, in

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<sup>1271</sup> The German chemical industry was heavily involved in the production of artificial nitrogen fertilisers.

<sup>1272</sup> RWM to AA, 19 Mar 1932, PA-AA, R117.677.

<sup>1273</sup> DG Kairo to AA, 27 May 1932, PA-AA, R117.677.

<sup>1274</sup> DG Bulkeley to AA, 7 Oct 1933, PA-AA, R105.834.

<sup>1275</sup> Reichsverband des deutschen Gross- und Ueberseehandels to Zentralstelle für Aussenhandel, 21 Nov 1930, PA-AA, R244.252.

<sup>1276</sup> AA to Zentralstelle für Aussenhandel, 12 Jan 1931, PA-AA, R244.252.

the case of Egypt “this seems hardly possible because most transactions (thanks to the fierce competition from all countries) come about through responding to special requests, and those are more easily and faster collected with direct relations”.<sup>1277</sup>

The market environment and the collaboration with local representatives changed dramatically when, after the Nazi seizure of power, the boycott movement against German goods reached Egypt. Traditionally, many German firms had engaged members of the local Jewish minority. According to the AA, “Egyptian” representatives were regarded as less capable in terms of foreign languages and commercial skills. In contrast, Egyptian authorities accused the German personnel policy of wage-dumping.<sup>1278</sup> The echoes of the boycott calls were clearly audible in Egypt, yet orders from Germany still increased over the first half of 1933. The AA noticed “that there can be no talk of a united front of Jewish import representatives”,<sup>1279</sup> and collaboration should continue as long as a representative did not agitate against Germany’s commercial interest. It was Egypt’s commercial attaché in Berlin, Salem Bey, who demanded that Germany should take the opportunity to replace all “Jewish businessmen” with “Egyptians”. He added that this might increase the German bidders’ chance when competing for government contracts.<sup>1280</sup>

The official Italian representation in Egypt took a middle stance. Much of the English- and French-speaking press clearly supported the calls for boycott. According to the Italian embassy, this paved the ground for goods that had previously faced stiff competition from German products. Yet, even in spite of a political environment offering untapped commercial opportunities to Italy, and a large section of Italian citizens in Egypt belonging to the Jewish faith, the Italian *Giornale d’Oriente*, for instance, did not argue for taking advantage of the boycott. While it shared concerns of the Jewish community, at the same time, it dissociated itself from the anti-German press.<sup>1281</sup>

It appears from this example that rivalries between Nazi Germany and Fascist Italy were less severe in Egypt than in other markets. This assessment is backed by evidence from the rivalries between the German and Italian ports. Even though the ports of the North Sea and the Adriatic competed for the same transactions (see Chapter 8), this long-lasting battle did not prohibit German authorities from allowing the import of Egyptian agricultural

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<sup>1277</sup> Vereinigte Deutsche und Österreichische Handelskammer für Ägypten, 17 Dec 1930, PA-AA, R244.252.

<sup>1278</sup> DG Kairo to AA, 10 Nov 1933, PA-AA, R244.252.

<sup>1279</sup> DG Bulkeley to AA, 7 Oct 1933, PA-AA, R105.834.

<sup>1280</sup> AA to DG Kairo, 31 Oct 1933, PA-AA, R244.252.

<sup>1281</sup> LI Cairo to MAE, 20 May 1933, ASMAE, AP, Germania, busta 14.

products via Trieste, and even agreed to use the German-Italian clearing mechanism to pay for the goods Italian merchants bought in Egypt.<sup>1282</sup> However, these kinds of concessions reached their limits when markets of higher German-Italian competition – like Southeastern Europe – were included. The already-examined commercial contract between Germany and Hungary, by which Nazi Germany harvested what Fascist Italy had previously sown, subsidised Hungarian cotton imports from Egypt via Bremen to an amount that undercut the rates via Trieste.<sup>1283</sup>

In 1934, after the boycott movement ebbed, German-Egyptian commercial relations gained in importance. An almost-undampened German commercial expansion led to a second place among the countries importing from Egypt. Moreover, throughout the world economic crisis, Egypt's relevance for Germany's overall import increased. The Egyptian chamber of commerce in Germany draw attention to trade statistics showing that while Germany's overall import declined between 1929 and 1934 from 100 index points to 33.1, imports from Egypt only went down to 55.7.<sup>1284</sup> This development was felt overseas. Herbert Feis, economic advisor for international affairs to the US Department of State, informed the US agricultural administration about the harm done to US cotton exports. Usually, Italy and Germany had taken significant amounts of the annual production, with the latter alone buying almost 10 per cent. However, while in the first three months of 1933 Germany had purchased 71.7 per cent of its cotton in the US, in the first three months of 1934, the amount was reduced to 53 per cent.<sup>1285</sup>

The demand for cotton in Germany was not all that brought it closer to Egypt. The Egyptian chamber of commerce in Germany conveyed the great admiration among “the Egyptian youth” for Germany. “With its technique and its science, with its art and its literature, it provides a role model, and if Egypt seeks alignment with a fully developed industrial country, it seeks this alignment most preferably with Germany”. Furthermore, to the chamber the strong population growth in Egypt resembled the German situation in the mid-nineteenth century, when domestic industrial expansion spurred economic growth, and Egypt aspired to

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<sup>1282</sup> RWM to Reichsbeauftragten für die Überwachungsstelle für Gartenerzeugnisse, 8 Apr 1936, PA-AA, R117.334. Italian authorities feared for this lucrative transit trade when the boycott-movement took up speed. See MAE to AI Berlino, 5 Apr 1933, ASMAE, AC, Germania, 1934, pos. 5-15.

<sup>1283</sup> LI Budapest to MAE, 31 May 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A; MCom to MCorp, 28 Jun 1935, ASMAE, AC, Italia, 1935, pos. 28 T.A.

<sup>1284</sup> Ägyptische Handelskammer für Deutschland, Mar 1935, PA-AA, R105.834.

<sup>1285</sup> Herbert Feis to Chester C. Davis, 10 Nov 1934, Library of Congress, Herbert Feis Papers, Box 124.

enjoy this demographic dividend, too.<sup>1286</sup> Fascist Italy was keen on playing a similar inspiring role for the countries in the Near East. Although Mussolini's foreign policy attempted to avoid direct association with the nationalistic, revolutionary movements in Egypt,<sup>1287</sup> it was clear at least to German observers "that Rome, [...] where orientalism has been particularly cultivated [...] looks out for any constellation" aimed at replacing – also commercially – the dominant influence of Britain.<sup>1288</sup>

The decision to wage war on Ethiopia, however, undermined this strategy of "soft" expansion.<sup>1289</sup> The Italian delegation in Cairo noted that in spite of the "ancient and traditional friendship towards Italy [...] Egypt cannot stay outside of the organism of the British Empire". In fact, Egypt was the only non-member of the League of Nations that took part in the sanctions imposed on the Italian aggressor by the international organisation. In particular, the Coptic population of Upper Egypt, with strong cultural ties with the Ethiopian Orthodox Church, opted to keep the established close relationship with the United Kingdom.<sup>1290</sup> The German embassy in Cairo recognised that Italy was falling behind commercially during the sanctions, partially because authorities denied payments for cotton already delivered before the implementation of the sanctions. At the same time, the ever-more practised compensations between German exporting companies, German banks as intermediaries and the Egyptian government as the official vendor of cotton, proved to be quite successful.<sup>1291</sup> This was not the case in Italy where the *Comitato di Coordinamento per gli Affari Economici* (co-ordination committee of economic affairs), a major steering body of foreign commerce, criticised the Italian compensation scheme and reprimanded Italian cotton importers. Allegedly, they had circumvented Italian trading houses because of their uncompetitive pricing.<sup>1292</sup>

In conclusion, Italy's "soft" approach to make Egypt part of the *Mare Nostrum* reached its limits because of institutional weaknesses in the commercial relationship, and because its "hard" military expansion in Ethiopia discredited Fascist Italy in the eyes of many members

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<sup>1286</sup> Ägyptische Handelskammer für Deutschland, March 1935, PA-AA, R105.834.

<sup>1287</sup> Cf. Arielli, *Fascist Italy*, pp. 52-60. Research into the fascination for Italian Fascism in Hindu nationalist movements has detected a similar reaction to the invasion in Ethiopia. Cf. M. Framke, *Delhi – Rom – Berlin: Die indische Wahrnehmung von Faschismus und Nationalsozialismus 1922-1939* (Darmstadt, 2013).

<sup>1288</sup> 'Palästina und Italien', *Fränkischer Kurier*, 24 May 1936.

<sup>1289</sup> A very critical account of the reception of fascism and national socialism by the Egyptian public is given by I. Gershoni and J.P. Jankowski, *Confronting fascism in Egypt: Dictatorship versus democracy in the 1930s* (Stanford, Calif., 2010).

<sup>1290</sup> LI Cairo, 'Egitto Situazione Politica nel 1935', n.d., ASMAE, AC, Italia, 1936, pos. 29-54.

<sup>1291</sup> DG Kairo to AA, 15 Apr 1936, PA-AA, R117.677.

<sup>1292</sup> Comitato di Coordinamento per gli Affari Economici, 29 Apr 1936, ASMAE, AC, Italia, 1936, pos. 29-54.

of the nationalistic Arabic movement. Unfortunately, Fascist Italy had hoped to find in this movement allies to sap the hegemonic position of the British Empire not only in Egypt but also in Palestine.

### ***3. Italy's Multiple Replacement through Nazi Germany's Trade with Palestine***

Unlike independent Egypt, Palestine was mandated to Britain, which held a firm grip on the remarkably developing economy. The UK played the dominant role in Palestine's banking and trade. With Barclays and the Anglo-Palestine Bank, a branch of the Jewish Colonial Trust, two out of the five larger banks active in Palestine belonged to the British finance industry. The latter was broadly involved in the construction boom that followed the Jewish immigration into Palestine, and which made the growing Palestine economy a rare exception in the global economic downturn of the 1930s.<sup>1293</sup> Large-scale projects such as the extension of the deep sea port of Haifa and the pipeline that connected Haifa with the oil reserves of Iraq (see below) created huge import requirements.<sup>1294</sup> According to Italian statistics, imports shot up from Lp (Palestine Pound) 7,166,593 in 1929 to Lp 15,200,000 in 1934.<sup>1295</sup> On the export side, the Jaffa orange, due to its skin particularly suitable for transportation and very appealing to the taste of Northern Europe, became an export hit.<sup>1296</sup> Only between 1931 and 1932, orange production grew from 3 to 5 million boxes.<sup>1297</sup> Altogether, during the period from 1929 to 1934 the volume of total exports increased from Lp 1,554,262 to Lp 3,250,000.<sup>1298</sup> Given the exceptional development during the world economic crisis, with even the global scourge of mass unemployment nearly unknown, it is not surprising that Germany and Italy sought to

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<sup>1293</sup> Cf. H. Sawwaf, 'Foreign Trade', in Sa'id B. Himadeh, ed., *Economic Organization of Palestine* (Beirut, 1938), pp. 385-441.

<sup>1294</sup> Cf. R.I.M. El-Eini, 'Trade Agreements and the Continuation of Tariff Protection Policy in Mandate Palestine in the 1930s', *Middle Eastern Studies*, 34, 1 (1998), pp. 164-191.

<sup>1295</sup> Comitato Italiano di Assistenza agli Emigranti Ebrei to Mussolini, 23 Dec 1935, ASMAE, Carte Suvich, busta 35. Issawi calculates that, between 1928 and 1938, Palestinian imports increased from \$ 33 million to \$ 56 million, and exports from \$ 7 million to \$ 29 million. This development was not even nearly matched by any other country in North Africa or the Middle East. See C.P. Issawi, *An economic history of the Middle East and North Africa* (New York, 1982), pp. 26-27.

<sup>1296</sup> Bankhaus Ignaz Ellern, Memorandum, n.d., PA-AA, R117.391.

<sup>1297</sup> DK Triest to AA, 20 Jul 1933, PA-AA, R242.669.

<sup>1298</sup> Comitato Italiano di Assistenza agli Emigranti Ebrei to Mussolini, 23 Dec 1935, ASMAE, Carte Suvich, busta 35. A German statistical survey on Palestine provides similar numbers, albeit with the exception of exports in 1929, which were estimated at Lp 1,900,000. See Salomon Zuckermann, *Palästinas Außenhandel: In graphischer Darstellung 1923-1934* (Berlin, 1935), p. 6.

bypass the bulwark erected with the mandate-status by Britain to benefit from enticing commercial opportunities.

The preferred method to breach the mandate was to build up direct relationships with those political groups who opposed foreign rule. Fascist Italy supported at the same time the Arabic nationalist movement in Palestine as well as the Zionists, for instance, with a Jewish naval school in Civitavecchia.<sup>1299</sup> Moreover, a scholarship programme provided graduates of the *Istituto Superiore di Scienze Economiche e Commerciali* in Bari with the opportunity to get hands-on experience on the Levant. The Italian consulate in Jerusalem supported the programme because Palestine, “given its geographical proximity and its optimal maritime connection [...] should be almost exclusively tied to the commerce of our country”. Such domination was still wishful thinking, and therefore the scholarship holders were placed in two sectors where Italian businesses had already gained a foothold: banking and shipping. The *Banco di Roma* operated branch offices in Palestine, but was limited in scope due to the prevalent influence of British banks.<sup>1300</sup> In the sector of shipping, however, the Italian mercantile marine ruled the market. It was exactly in this sector that Fascist Italy was able to economically benefit from the migratory flows towards Palestine.

The Jewish emigration from Europe, and after 1933 in particular from the Third Reich, was to a large extent carried out via the port of Trieste, which faced the economic crisis and heavy competition from the German ports of the North Sea (see Chapter 8). Therefore, it had to seek alternatives to ensure economic survival. From the early 1920s, the *Comitato Italiano di Assistenza agli Emigranti Ebrei* (Italian Committee for Assistance to Jewish Emigrants) negotiated between potential emigrants, port authorities in Trieste and Italian shipping companies. “Given the importance of the Jewish migratory movement, which is probably the most remarkable in the context of global emigration [...] the interest that Italy has, and must have, is evident due to political, economic and cultural reasons”, the committee wrote to Mussolini. According to its statistics, 4,028 people emigrated to Palestine via Trieste in 1931, 8,264 in 1932 and 21,183 in 1933. Whereas emigrants to the Americas left Europe preponderantly from other Italian ports, all emigrants leaving for Palestine from Italy passed through Trieste. One of the principal reasons for this bias was the established network of

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<sup>1299</sup> ‘Palästina und Italien’, *Fränkischer Kurier*, 24 May 1936. Moreover, the German consulate in Jerusalem reported that Fascist Italy nurtured close ties with the revisionist fraction of the Zionist movement. See GK Jerusalem to AA, 7 Jun 1935, PA-AA, R72.816.

<sup>1300</sup> CI Gerusalemme to Consiglio Provinciale dell’Economia Corporativa di Venezia, 13 Dec 1932, ASMAE, AC, Italia, 1933.

commercial shipping between Trieste-based shipping companies and Palestine. In 1933, for instance, the Italian merchant marine transported 962,019 tons of Palestine's total import of 3,223,959 tons, significantly more than the second-placed British merchant marine (646,608 tons).<sup>1301</sup> In addition, Trieste became a major European hub for the distribution of Jaffa oranges.<sup>1302</sup>

Over the thriving transit of persons and (non-Italian) goods, Italian industrialists nurtured hopes that ultimately their products would also find greater acceptance in Palestine. At first, the hopes were rather disappointing, particularly in comparison with German products (see Table 12). The Italian consulate in Jerusalem reported that the general strengths of the German industry – “commercial methods, organisation of credit, propaganda” – also played a role for successful positioning on the Palestine market. What was more in the specific Palestine context, many emigrants from Germany would bring with them a clear preference for German products and act as commercial multipliers.<sup>1303</sup>

A window of opportunity then opened for Italian industrialists when in reaction to Hitler's rise to power the boycott-movement against German products picked up pace. For instance, the *Ostthüringsche Metallwarenfabrik*, a metalworking company, gave a daunting account of its sales situation in Palestine. “What is lost here to German commerce and industry is outrageous” complained the completely ousted company. Contracts were awarded to competitors even if their prices were above the German bid, and in addition to British and French companies, Italian firms had seized the moment.<sup>1304</sup> The Italian economy not only benefited from less competition. Gestapo (Nazi Germany's secret police) documentation attests that a German company, the metal processing *Robert Tümmeler*, relocated to Italy to circumvent the boycotts, thus strengthening Italian-Palestine commercial relations.<sup>1305</sup>

However, with a new commercial means to ward off the boycott, the Nazi government changed the game. Foreign exchange authorities under Nazi control had denied Jewish emigrants forced out of Germany by the brutal anti-Semitic attacks the chance to transfer fully their assets to Palestine. In this constellation, with German export goods held back because of the boycott in Palestine, and assets of Jewish emigrants held back by the Nazi government,

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<sup>1301</sup> MAE to Consiglio Provinciale dell'Economia Corporativa di Venezia, 11 Mar 1933, ASMAE, AC, Italia, 1933.

<sup>1302</sup> DK Triest to AA, 20 Jul 1933, PA-AA, R242.669; MAE Appunto, 10 Apr 1934, ASMAE, AC, Italia, 1934, pos. 2-8-9.

<sup>1303</sup> CI Gerusalemme to Consiglio Provinciale dell'Economia Corporativa di Venezia, 13 Dec 1932, ASMAE, AC, Italia, 1933.

<sup>1304</sup> RfA to AA, RWM, 16 Jun 1934, PA-AA, R245.188.

<sup>1305</sup> Geheimes Staatspolizeiamt to RfA, 13 Jul 1934, PA-AA, R245.188.

German government institutions (AA, RWM, *Reichsbank*) negotiated in May 1933 an agreement with the *Hanotea Ltd.*, a private citrus planting company run by Sam Cohen. The agreement provided for two bank accounts at the *Reichsbank*: one for the *Anglo-Palestine Bank* and one for the *Tempel Bank*. The latter was a small financial institution founded by the *Tempelgesellschaft*, a German Protestant sect based in Palestine.<sup>1306</sup> For a cynical fee, the Nazi government allowed Jewish emigrants to apply at German foreign exchange authorities for permission to transfer their assets to these accounts.<sup>1307</sup> Vice versa, the *Hanotea* used the thereby collected money to purchase German pipes, pumps, construction material and fertilisers – all the goods necessary to expand the booming citrus business in Palestine. The *Hanotea* agreement soon developed into the similar *Haavara* agreement, by which a representative body of the Zionist movement (*Haavara*) replaced the private company.<sup>1308</sup> The AA admitted that the deal was no means to facilitate the dreadful fate of the Jewish emigrants, but solely an attempt to break the boycott.<sup>1309</sup>

Although this arrangement was well known in Palestine, and open quarrels broke out between different factions within the Zionist movement whether the *Haavara*-agreement was a legitimate tool,<sup>1310</sup> it was implemented and indeed fostered German exports. The *Deutsche Levante-Linie*, a shipping company specialised in trade with Palestine, reported that whereas in the first half of 1933 it had unloaded 14,146 tons of goods in the port of Jaffa, over the same period of 1934 the amount rose to 23,207 tons. For the port of Haifa the development was “even more favourable”. Furthermore, representatives of the *Levante-Linie* urged the Nazi government to generously provide foreign exchange for the import of citrus fruits from Palestine. “Palestine’s citrus industry is of such outstanding importance for the economic life of Palestine, that the stakeholders of the citrus industry can be regarded as crucial”, argued a representative based in Jaffa.<sup>1311</sup> A generous access for the Jaffa orange to the German market,

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<sup>1306</sup> H. Glenk, H. Blaich and M. Haering, *From desert sands to golden oranges: The history of the German Templer settlement of Sarona in Palestine 1871-1947* (Victoria BC, 2005).

<sup>1307</sup> RWM to Hanotea, 18 Jul 1933, PA-AA, R117.391.

<sup>1308</sup> The *Haavara* agreement has been analysed (also controversially) by historiography. It is here only studied to the extent necessary to understand its repercussions on the triangular German-Italian economic relationship in Palestine. For further analyses see A. Barkai, ‘German Interests in the *Haavara*-Transfer Agreement 1933-1939’, *Yearbook of the Leo Baeck Institute*, 35 (1990), pp. 245-266; F.R. Nicosia, *Zionism and anti-Semitism in Nazi Germany* (Cambridge, New York, 2008), pp.78-90.

<sup>1309</sup> GK Jerusalem to AA, 3 Jul 1933, PA-AA, R117.391; GK Jerusalem to AA, 16 Nov 1934, PA-AA, R106.209.

<sup>1310</sup> The foreign organisation of the NSDAP collected evidence on the dispute in Palestine. See Aussenhandelsamt der Auslandsorganisation der NSDAP, 11 Aug 1934, PA-AA, R245.188.

<sup>1311</sup> Wilhelm Aberle (Jaffa) to Vorstand der Deutschen Levante-Linie, 25 Jul 1934, PA-AA, R245.188.



therefore, was considered appropriate to ease the boycott tendencies and the opposition against the *Haavara*-agreement.

This combined effort to fight back the boycott of German products showed remarkable results. Between 1933 and 1934 Germany increased its share in Palestine's orange sales from 17.6 per cent to 23 per cent, while Britain's share decreased from 72.3 per cent to 64.2 per cent. At the same time Germany's exports soared from Lp 775,100 in 1932 to Lp 1,659,000 in 1934. Especially the lucrative sector of finished goods profited. In March, when new equipment for the upcoming planting season was purchased, German exports of finished products regularly topped even British exports. In March 1933, Germany's exports goods worth Lp 98,400 were only slightly ahead of Britain's exports worth Lp 93,400. In March 1935, however, Germany's exports had more than doubled in size to Lp 257,600, while British exports only increased to Lp 165,500.<sup>1312</sup>

For Fascist Italy's commercial interest in Palestine, Germany's export campaign had a devastating impact in several respects. It has been already shown that since the *Haavara*-agreement was set in motion, the German merchant marine was able to increase its Palestine business. Given the dominant position of Italian lines, it is not surprising that this development was sceptically observed by the Italian shipping company *Lloyd Triestino*.<sup>1313</sup>

Yet, in shipping the negative impact was still relatively mild. More threatening was the impact on Italian exports. The *Haavara*-agreement made an extension of commercial relations with the Jewish community hardly possible. Moreover, the agreement also triggered attempts by Arab orange planters to receive a similarly beneficial access to the German market by promising to shift their orders of finished goods, which previously had gone to other countries, to Germany.<sup>1314</sup> As a result, Italy's export to Palestine, which had always generated a badly needed surplus for Italy, went into decline. While in 1932, Italy still occupied the eighth place among Palestine's suppliers, it only reached tenth place in 1933 and dropped out of the top-ten in 1934.<sup>1315</sup>

Lastly, the German export campaign in Palestine also burdened Italy's strategically important relationship with the German market (see Part I). Especially the export of southern fruits to the market north of the Alps had created essential export revenues. However, by 1935, the Jaffa orange had replaced Italian oranges on the German market, much to the regret of

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<sup>1312</sup> Zuckermann, *Palästinas Außenhandel*, p. 16.

<sup>1313</sup> Lloyd Triestino to MAE, 28 Aug 1934, ASMAE, AC, Italia, 1934, pos. 2-8-9.

<sup>1314</sup> Günter Wegner to RWM, AA, Reichsdevisenstelle, 20 Feb 1935, PA-AA, R117.713

<sup>1315</sup> Zuckermann, *Palästinas Außenhandel*, p. 8. See also table 12.

Italian authorities.<sup>1316</sup> Therefore, the case of Palestine adds more weight to the argument that Nazi Germany's commercial expansion and the repercussions with Italy's commercial positions in third-party markets counteracted the market benefits Nazi Germany offered to the Italian economy in their bilateral economic relationship.

#### ***4. Iraq's oil***

Iraq, although not directly bordering the Mediterranean, was connected in the 1930s with the countries of the Eastern Mediterranean by technical means that changed significantly the world of the twentieth century. Pipelines and railways carried crude oil from the recently developed, waste oil reservoirs of Iraq to port towns such as Haifa or Tripoli. From there the oil was made available in particular to the nearby European markets. The route of transportation was an expression of the political landscape in the Eastern Mediterranean, which was to a large extent structured by the League of Nations' mandate system. The closest Mediterranean port towns for Iraq either belonged to the British mandate for Palestine or the French mandate for Syria and the Lebanon. The state of Iraq, in contrast, after it had been mandated to Britain in 1920, gained formal independence as of 1932. Nonetheless, many contracts still guaranteed a certain competitive edge for British commercial interest on the Iraqi market and yet, from time to time rising aversion of Iraq's elite vis-à-vis its former ruling power proved to be a window of opportunity for the business community of countries unburdened by a colonial past.

In Germany and Italy, this political constellation nurtured hopes to profit from large-scale public works, which had been discussed at the League of Nations and which after 1931 in defiance of the world economic crisis revived the oil-rich country.<sup>1317</sup> As early as 1930, Germany's ambassador in Rome, Carl von Schubert, discussed with Italian Foreign Minister Dino Grandi that, if forces were joined, a bid for tender would seem more likely to have success. While Iraq's formal independence was still under way, von Schubert reckoned that London would only grant formal independence to Iraq because it actually facilitated the realisation of its commercial objectives.<sup>1318</sup> Another argument for closer co-operation was presented by the German representation in Iraq. It argued that negotiating with Baghdad for

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<sup>1316</sup> IB Berlino to MCorp, 28 May 1934, ASMAE, AC, Germania, 1934, pos. 1-4; Südfrüchte-Import-Export to Aussenhandelsstelle, 12 Jan 1935, PA-AA, R117.713.

<sup>1317</sup> See J. Sassoon, *Economic policy in Iraq, 1932-1950* (London, England, Totowa, N.J., 1987), pp. 57-65.

<sup>1318</sup> Von Schubert, 'Streng vertrauliche Abschrift', 19 Jan 1930, BArch, R 43-I/80.

government contracts always carried the risk that the bidding companies were played out against one other by the Iraqi government.<sup>1319</sup>

One of the most promising projects was the irrigation plan for the Euphrates. The project foresaw a system of channels regulating the flow of the river Euphrates into the lake Habbaniyah in order to reduce damage by river floods. The estimated realisation costs of the whole project were about one million pounds sterling, and the Iraqi government intended to award the realisation to one hand only.<sup>1320</sup> Accordingly, in order to prevail against the many competitors, consortia had to be found. The companies *Allgemeine Baugesellschaft Lenz & Co* from Germany as well as *Domenico Vitali & Co* and *Pietro Cidonio* from Italy reached out for each other. The negotiators, the Italian general Armando Mola with sound experience in Iraq, and the German engineer Walter Ulrich, found and registered in Iraq the company *Iraq Contracting Company Ltd.*<sup>1321</sup> Other German construction companies, namely *Julius Berger Tiefbau AG* and *Phillipp Holzmann AG*, joined another international consortium to bid for the Habbaniyah project.<sup>1322</sup> Nevertheless, the German consulate in Baghdad dubiously reckoned that, “without the conjunction of the German construction company [...] with a powerful English group not much can be achieved here”.<sup>1323</sup> That this estimation was accurate is demonstrated by the bid of a consortium consisting of Italian firms only. Dominated by the *Banco di Roma*, which guaranteed every necessary loan, the consortium still did not manage to make it onto the short list, and complained about discrimination in the tendering procedure.<sup>1324</sup> After all, the tendering turned out to be a competition of British corporations.<sup>1325</sup>

Different was the situation of the British Oil Development Company (BOD), a consortium constituted mainly by British, but also Italian and German shareholders.<sup>1326</sup> In 1932, the Iraqi government granted the exploitation of the oil reservoirs west of the river

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<sup>1319</sup> DK Bagdad to AA, 1 Dec 1931, PA-AA, R92.275.

<sup>1320</sup> W. Allard, Director of Irrigation, ‘Brief Note on the Habbaniyah Project’, 6 Jan 1932, PA-AA, R92.275.

<sup>1321</sup> ‘A Sign of the Times in Iraq’, *Baghdad Times*, 19 Jan 1932.

<sup>1322</sup> DK Bagdad to AA, 19 Feb 1933, PA-AA, R92.275.

<sup>1323</sup> DK Bagdad to AA, 14 Jul 1932, PA-AA, R92.275.

<sup>1324</sup> Banco di Roma to MAE, 5 Mar 1933, ASMAE, AC, Iraq, 1933; LI Bagdad to MAE, 2 May 1933, ASMAE, AC, Iraq, 1933.

<sup>1325</sup> DG Bagdad to AA, 18 Oct 1933, PA-AA, R92.275.

<sup>1326</sup> The BOD has already been dealt with in historiography. Cf. D. Silverfarb, *Britain’s Informal Empire in the Middle East: A Case Study of Iraq, 1929-1941* (New York, 1986), p. 96; Kockel, *Deutsche Ölpolitik*, pp. 93-94, 206-211. D. Kumetat, ‘The failure of German business and economic policy towards Iraq in the 1930s: an example of the German arms and steel company Otto Wolff, Cologne’, *Al-Abhath*, 55-56 (2007), pp. 147-173. While previous studies centered primarily on the development of the company or the situation in Iraq, this analysis is about the repercussions on the German-Italian economic relationship.

Tigris and north of the thirty-third degree latitude to the consortium. It was the second big oil consortium operating in Iraq next to the Iraq Petroleum Company (IPC), a group which included the four major oil companies *Anglo-Persian Oil Company*, *Shell Group*, *Compagnie française des pétroles* and the *Near East Development Corporation (Standard Oil)*. Whereas IPC's shares were distributed equally among its members, the BOD was founded initially as a British company, that is, with legal requirements to be registered and headquartered in the UK as well as to have a British chairman. Sure enough, for British stakeholders in the oil business the BOD was an opportunity to benefit from the legacy of British mandatory rule. What was more, it was also a means to counteract the rising influence of US companies in Iraq's oil business. A wide-spread opinion in London held that in the construction of the IPC, a US-backed initiative for an "open-door policy" in Iraq had ensured the above-described equal distribution of the IPC's shares at the expense of Britain's oil interest. Conversely, the Iraqi government took note of the BOD with satisfaction, because with an additional competitor on the ground it hoped for better bargaining results compared with a situation where it was only able to negotiate with the IPC.<sup>1327</sup>

In spite of its legally underpinned British character, the BOD tried to appear as an international consortium by selling minority shares. The biggest chunk of roughly 40 per cent was acquired by AGIP, an Italian oil company with close ties to the fascist regime.<sup>1328</sup> In Italy, which was heavily dependent on imports of petroleum products from the USA and the Soviet Union, the BOD appeared as a unique opportunity to increase energy independence.<sup>1329</sup> The dependence on oil imports was of particular quality because in contrast with other countries without domestic oil resources, such as Germany, alternative methods of production provided no relief. For instance, the extraction of Italian shale oil was not profitable, and the production of synthetic oil from coal or similar products not possible because of a domestic lack of required resources.<sup>1330</sup>

With the Italian AGIP on board, the BOD looked for further partners in order to convince the Iraqi government that the "open door principle" was to be respected. As in the case of the Habbaniya project, the Italian General Mola appeared on the scene and reached out toward German circles. German initiatives for greater economic co-operation with the independent state of Iraq had been closely observed in Italy. For instance, the MAE informed

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<sup>1327</sup> E. Saxon-Napier, 'Kampf um das Mossul-Oel', *Industrie und Handelszeitung*, 7 Feb 1930.

<sup>1328</sup> DK Bagdad to AA, 31 Jan 1930, PA-AA, R92.244.

<sup>1329</sup> Arielli, *Fascist Italy*, p. 5.

<sup>1330</sup> 'Italiens Benzin-Sorgen', *Berliner Tageblatt*, 20 Feb 1936.

its various embassies in the Middle East about the establishment of a *German Aviation Company*, which intended to connect Berlin, Baghdad and Tehran by plane.<sup>1331</sup> Of even greater interest was the plan for a new German-Iraqi commercial contract based on the MFN principle. German authorities had compared Iraq's situation under mandatory rule with Germany's situation prior to 1925, when obligations deriving from the Treaty of Versailles prevented it from enjoying MFN rights.<sup>1332</sup> Only the news of a potential German-Iraqi commercial contract sparked an immediate discussion on whether Italy too should sign a similar contract.<sup>1333</sup>

German government authorities took interest in the offers to join the BOD. The German consulate in Baghdad supported a minority shareholding in spite of potential political frictions of a German initiative in a region, which had prior to World War I seen massive tensions between Germany and other European powers over the construction of the *Bagdadbahn* (Baghdad Railway). However, to get a hold of the Mosul crude was too large an opportunity to be neglected. The oil was had the potential to change the European market because it was expected to be of better quality than any other Middle Eastern oil, cheaper because of lower freight costs and fees and easier to extract.<sup>1334</sup> In addition, the prospect of participating in a major infrastructural project at times of global economic depression and weak demand for German products was deemed sufficient to take the political risk. The AA estimated that the scope of the project was at least RM 50 million.<sup>1335</sup>

To parallel the commercial interests of Germany and Italy, a plan was established that foresaw that Italy would provide the labour for the construction of drilling platforms, pipelines and railways, and German companies deliver machines and construction material.<sup>1336</sup> Accordingly, led by the independent investor Thomas Brown, a consortium of German construction and mechanical engineering companies (including *Fried. Krupp AG*, *Otto Wolff* and *Ferrostahl*) acquired a minority stake of roughly 12 per cent in the BOD.<sup>1337</sup>

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<sup>1331</sup> MAE to various embassies, 19 May 1933, ASMAE, AC, Iraq, 1933.

<sup>1332</sup> AA, 16 Jul 1930, PA-AA, R92.244.

<sup>1333</sup> MAE to AI Bagdad, 14 Jan 1933, ASMAE, AC, Iraq, 1933; AI Bagdad to MAE, 24 Apr 1933, *ibid*.

<sup>1334</sup> Thomas Brown, 'Niederschrift über die Bedeutung der deutschen Quote in der BOD', 25 May 1932, PA-AA, R92.245.

<sup>1335</sup> AA, 'Stehen die deutschen Warenlieferungen für die British Oil Development Company (BOD) im Irak im rechten Verhältnis zu dem politischen Risiko', 6 May 1930, PA-AA, R92.244.

<sup>1336</sup> DK Bagdad to AA, 11 Mar 1930, PA-AA, R92.244; AI Berlino to AA, 28 Sep 1932, PA-AA, R92.245.

<sup>1337</sup> Krupp to RWM, 25 May 1932, PA-AA, R92.245.

The German government backed the private initiative with a deficiency agreement (*Ausfallbürgschaft*) covering half of the possible losses of the consortium.<sup>1338</sup>

In Italy, the successful tender for the concession nurtured aspirations for an even larger involvement in the BOD. Alessandro Martelli, fascist politician and president of AGIP, gained the impression from a voyage to Iraq that the Iraqi king and court would prefer an Italian domination of the BOD. Italian companies were perceived as being sincerely interested in developing and exploiting the oil fields, whereas British shareholders were suspected of mere speculative motives, which could even mean that the development would be delayed in order to stabilise prices. Moreover, Martelli was confident that the sympathies he detected for Italian fascism among Iraqi government circles could be of help for further commercial initiatives.<sup>1339</sup>

However, an episode from the construction of pipelines shows how quickly Italian stakeholders in the BOD could reach the limits of a legal framework, which was still influenced by the mandatory powers of the Middle East. If a town was passed by a pipeline on its way to the Mediterranean, the construction works could boost development. The Italian consulate in Tripoli, one of the final destinations of the pipelines coming from Iraq, reported that the Syrian town of Homs was economically thriving because of the massive demand for labour on the construction sites of the pipeline.<sup>1340</sup> In the British mandate for Palestine, too, the construction of pipelines created huge labour demand, which not least was caused by the legal prerequisite that only “local labour”, that is, Palestinian workers, were to be employed on the sites. This was of course unacceptable to the Italians, who had secured in the distribution of tasks between BOD members the supply of workers and technicians. Eventually, the Italian claims were supported by German authorities, which were anyway more interested in the supply of machinery.<sup>1341</sup> Together they could overcome British resistance and trigger an amendment that allowed foreign citizens to work on the pipeline in the mandated territories.<sup>1342</sup>

German-Italian co-operation within the BOD soon thereafter had to deal with quite an existential problem: the financing of the company. Ahead of buoyant revenues, there was a long road of costly explorations and developments. Moreover, the Iraqi government collected

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<sup>1338</sup> RWM to Irak-Konsortium, 30 Jan 1933, PA-AA, R92.246.

<sup>1339</sup> LI Bagdad to MAE 4 Feb 1933, ASMAE, AC, Iraq, 1933.

<sup>1340</sup> Vice Consolati d'Italia Tripoli, 12 Jun 1933, ASMAE, AC, Iraq, 1933.

<sup>1341</sup> GK Jerusalem to AA, 5 Apr 1932, PA-AA, R92.245.

<sup>1342</sup> GK Jerusalem to AA, 18 Jul 1932, PA-AA, R92.245.

from the beginning on fees (e.g. a “dead rent”) for granting the concession. Although the original plan was to collect funds on the London financial markets to deal with the lean period, this option eventually became unrealistic. The German embassy suspected the British shareholders of deliberately delaying a timely payment of the fees in order to provoke the withdrawal of the concession, followed by a renewed bid for tender by the British group disposed of its other European partners.<sup>1343</sup> In this situation, Brown argued to take the initiative by paying the fees and acquiring the majority in the BOD. He tried to convince the AA that there, “won’t be another opportunity to secure at such favourable terms and with relatively minor expenses an investment in perhaps the most important international business”.<sup>1344</sup> In general, the AA shared Brown’s thoughts about the very lucrative possibilities of the deal. Yet, it had difficulties with the feasibility of the project given the legal character of the BOD as a British company.<sup>1345</sup> While the German authorities still hesitated, the Italian group, which was always informed about every step of the German group by Thomas Brown, covered the “dead rent” due in April 1934.<sup>1346</sup>

Furthermore, Brown still envisaged a greater involvement of the German group, thereby claiming that the German-Italian tandem should dominate the BOD. Given the impossibility of collecting money on the London capital market, it was planned that the German companies would deliver a large chunk of the technical equipment necessary to develop the oilfields on credit, and receive oil in return, once it flowed to the Mediterranean.<sup>1347</sup> Their willingness to reinforce efforts, and the lack of alternatives, gave the Italian and German group the competitive edge to increase their share in the BOD with the next capital increase. As of April 1934, AGIP held 47 per cent, the German group 11 per cent and the British group only 42 per cent of BOD shares.<sup>1348</sup> The Italian-German liaison was sealed with the intention to acquire at least 76 per cent of the shares,<sup>1349</sup> and received the blessing of Mussolini.<sup>1350</sup> Also in Germany, the AA, the RWM, and namely Hjalmar Schacht,

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<sup>1343</sup> DB Bagdad to AA, 9 Feb 1934, PA-AA, R92.246.

<sup>1344</sup> Thomas Brown to AA, 14 Feb 1934, PA-AA, R92.246.

<sup>1345</sup> DB Bagdad to AA, 18 Nov 1933, PA-AA, R92.246.

<sup>1346</sup> ‘Réunion du Comité Technique et Financier de la BOD et de la MOF ainsi que des représentants des groupes participants des memes compagnies’, 6 Apr 1934, PA-AA, R92.246.

<sup>1347</sup> Koehler (AA), 10 Jan 1934, PA-AA, R92.246.

<sup>1348</sup> AA to DB Rom, 4 Apr 1934, PA-AA, R92.246; ‘Italienische Kontrolle der Mossul-Oelfelder’, 13 Mar 1935, Archivio Storico Banca d’Italia, Fondo Studi, cart. 157, fasc. 1. The distribution of shares changed frequently and the public had difficulties to follow track. See J. Kastenholz, ‘Krieg und Oel’, *Berliner Tageblatt*, 20 Sep 1935.

<sup>1349</sup> Thomas Brown to AGIP, 5 Apr 1935, PA-AA, R92.246.

<sup>1350</sup> Thomas Brown, ‘Reisebericht Rom-Irak-Beiruth’, 9 Jun 1935, PA-AA, R92.248.

attached great importance to the deal because the “supply with oil is one of the most difficult and important questions of our economic policy”.<sup>1351</sup> While at the beginning of the BOD project, only sales opportunities for the German industry suggested an involvement, by 1934/35, strategic implications for Germany’s economic and defence policy asked for a greater stake. Only the finance ministry still found fault with the project, as it so far had only caused rising financial risks for the German government because of the deficiency agreements and provided no return on the investments.<sup>1352</sup>

Over the course of 1935, when the Italian group finally acquired 53 per cent, and all British members of the board withdrew,<sup>1353</sup> the feasibility of the project changed dramatically. Against previous expectations, the geologists indicated that the reservoirs were mainly of heavy oil with a huge amount of asphalt.<sup>1354</sup> This changed the entire project, as the oil could not be transported without refinement via pipelines to the Mediterranean. However, to build refineries would be first very expensive, and second take more time, which was unsustainable because of the concession fees due in the meantime. Therefore, Brown developed the plan to revive an old project of Imperial Germany: the Baghdad Railway. By finishing the railway connection with Mosul, the oil could be carried in wagons to the Mediterranean. This plan, however, faced much more international opposition than the connection with pipelines. First, the British railway project Baghdad-Haifa was potentially threatened by an Iraqi rival. Then, also in Turkey the German plan contradicted hopes for a Turkish railway project, which would connect Mosul with Anatolia. Finally, even the Iraqi government was not satisfied with the envisaged track as it would connect the region of Mosul, ethnically of different composition than Baghdad and closer with Syria, thereby increasing the risk of separation.<sup>1355</sup>

Ultimately, the project also alienated the Italian partners. Via the French ambassador in Iraq, the AA obtained information that Italian stakeholders perceived the plan as the re-activation of an imperial strategy, which was associated with a perceived German domination of the Italian industry in the late nineteenth century, and which seemed not to be a template for co-ordinated action with Italy.<sup>1356</sup> The German group went on to implement the railway-plan, but Italian stakeholders according to Thomas Brown “tried by all available means to

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<sup>1351</sup> Hjalmar Schacht (RWM) to RFin, 13 Jul 1935, PA-AA, R92.246.

<sup>1352</sup> RFM to RWM, 31 Jul 1935, PA-AA, R92.246.

<sup>1353</sup> ‘Rom erringt die Kontrolle der Mossul-Oelfelder’, *Berliner Tageblatt*, 17 Sep 1935.

<sup>1354</sup> RWM, 26 Jun 1935, PA-AA, R92.246.

<sup>1355</sup> DG Bagdad an AA, 23 May 1935, PA-AA, R92.250.

<sup>1356</sup> DG Bagdad to AA, 27 June 1935, PA-AA, R92.250. See also chapter 1 for the development since the late nineteenth century.



make the matter impossible”.<sup>1357</sup> AGIP representatives even prevented the re-election of a German board member, whereupon it was left to the lawyers to communicate between the groups.<sup>1358</sup> In this situation, it was quite easy for British stakeholders to stir up Italian-German tensions. Despite its own railway project in Iraq, the British government pretended to have changed its mind, and would now support the German cause in order to enhance co-operation in the BOD and eventually increase the British-German majority.<sup>1359</sup>

In the end, German-Italian collaboration in Iraq failed due to deep-rooted Italian mistrust, based on the experience gained from Germany’s industrial expansion in the long nineteenth century, and Germany’s inability to address these patterns properly. Tragically, it failed at a moment when both governments recognised the strategic importance of oil. By early 1936, Italian shareholders in the BOD elaborated to pull out for the benefit of the US (that is in particular *Standard Oil*) or the British oil industry, which was still supplying Fascist Italy in spite of the League of Nations sanctions imposed after the attacks on Ethiopia.<sup>1360</sup> Eventually, the Italian group sold to the *Anglo-Iranian Oil Company*, which made the BOD a British affair and uninteresting for the German group.<sup>1361</sup>

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<sup>1357</sup> Thomas Brown to DG Bagdad, 26 Jul 1935, PA-AA, R92.250.

<sup>1358</sup> Ferrostahl to RWM, 5 May 1936, PA-AA, R92.247.

<sup>1359</sup> DG Bagdad to AA, 18 Jul 1935, PA-AA, R92.250.

<sup>1360</sup> DG Bagdad to AA, 14 Mar 1936, PA-AA, R92.247. Cf. G.C. Gigli, ‘La Partecipazione Dell’Italia Allo Sviluppo Dei Petroli Dell’Iraq’, *La Rivista Italiana del Petrolio*, 19 (1941).

<sup>1361</sup> E. Flacker, *Fritz Grobba and Nazi Germany’s Middle Eastern Policy, 1933-1942* (London, 1998), p. 72.



## Conclusion and Outlook

In February 1936, Italy's de facto Foreign Minister Fulvio Suvich warned the Duce of the dangers to his projected path of Italian expansion. With regard to the independence of Austria, he reckoned that Germany will try "everything it can in order to surmount the 100 kilometres that still separate it from the Adriatic". Furthermore, with the *Anschluss* of Austria, Germany would acquire all necessary means to pursue again its "traditional expansion along the routes to the South and the Orient". To protect Italy's vital interests, he urged Mussolini to stop Germany with a "vigilant and permanent defence".<sup>1362</sup> Suvich was born in Austrian Trieste and for great parts of his professional life was concerned with Italy's eastern borderlands along the Adriatic.<sup>1363</sup> He had a major impact on Italy's policy towards Southeastern Europe and the Eastern Mediterranean since moving from the League of Nations headquarters in Geneva into office at the MAE in late 1932.<sup>1364</sup> However, at the time of writing in 1936 he was already close to losing his influence on the Duce and Italy's foreign policy.

In this year, Fascist Italy not only ended its economically demanding war campaign in Ethiopia, which had discredited its reputation among western democracies as well as countries in the Eastern Mediterranean, it also opted for the "Rome-Berlin Axis", thus closely linking its destiny to Nazi Germany with which it had increasingly become economically interdependent.<sup>1365</sup> In the 1936 reshuffle of Italy's foreign ministry, Galeazzo Ciano removed Suvich from his position in order to facilitate the German-Italian rapprochement. But a pattern was established in which rivalries in the shared periphery of Nazi Germany and Fascist Italy – Southeastern Europe and the Eastern Mediterranean – accompanied and even contrasted the intensifying political and economic collaboration between Germany and Italy on the bilateral level.

The rivalries derived from a shared attempt to construct exclusive economic areas with a foreign economic policy devoted to economic nationalism and bilateralism. As has been shown in Part II, both countries had fought at the forefront of regionalism already since the

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<sup>1362</sup> F. Suvich, *Appunto per Mussolini*, 7 Feb 1936, quoted in Suvich and Bianchi, *Memorie*, p. 282.

<sup>1363</sup> See, for instance, F. Suvich, *Trieste e l'espansione italiana in Oriente* (Roma, 1922).

<sup>1364</sup> Cuomo, 'Trieste, l'Italia', p. 57.

<sup>1365</sup> Mantelli has argued that Fascist Italy had no choice but to join the ranks of Nazi Germany if it wanted to continue along its expansionist path. See Mantelli, 'Vom "bilateralen Handelsausgleich"', p. 254. However, this assumption of no alternatives neglects not only the margins for manoeuvre as presented in this thesis, it also fails to recognise that it was Mussolini and Fascist Italy that actively and without any outside pressure opted for closer bilateral economic alignment with Germany already well before 1933.

outbreak of the world economic crisis. In Geneva, political considerations on behalf of Berlin and Rome met with the economic interest of Southeastern European states in economic and financial turmoil. The primary producer's demand to boost their exports with a preferential treatment provided the governments of Germany and Italy, by far the biggest markets for grain from Southeastern Europe, with a powerful means for political leverage. The only problem of such a strategy was the basic principle of international free trade: the most-favoured-nation clause. Germany and the Southeastern European states placed the issue on the agenda of the League in order to circumvent international opposition by the guardians of a liberal order of trade and the supporters of the postwar political order of Europe.

In general, the League adhered to the liberal conception of free trade in its search for economic relief. However, the economic situation in Southeastern Europe was grim to the extent that it rendered the established commercial policies pointless. The option of preferences seemed to offer the only feasible attempt to stimulate exports and ultimately economic growth. Moreover, a system of preferences principally could benefit as well the major European powers in the League: Britain and France. Both had granted substantial loans to the region and faced the prospect of defaults if the Southeastern European states did not raise revenues. Eventually, the League altered its standpoint and allowed preferences when some prerequisites were fulfilled. Thereby, an opportunity arose, which Berlin successfully used for its preferential treaties with Hungary and Romania. The contracts complied with the League's requirements, and consequently found acceptance by the international organisation in spite of politically rooted and sharp opposition from countries in Southeastern Europe like Czechoslovakia and Yugoslavia, as well as from the edge of Europe, where Russia and Turkey complained of commercial-interest violations. Berlin also tried to win Rome's support for the contracts, after German-Italian co-operation at the League over issues such as reparations and rearmament had worked fairly well.<sup>1366</sup>

The German strategy in this regard resembled the relationship between the League's mandate system and the mandatory powers, which according to Susan Pederson is rather understood as, "a mechanism for generating publicity and norms than as a system of governance: League oversight proliferated information and publicity about the mandates and

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<sup>1366</sup> In fact, the preparations for the German-Italian bilateral meetings as presented in Part I have shown that the topics discussed at the League and the international stage also served to evoke an actually disputed common stance and to cover up the conflicts in the bilateral commercial relationship (see Part I, Chapter 2).

offered legitimacy to those powers that complied with the system's formal requirements".<sup>1367</sup> The League's rules for exceptions from the MFN clause provided the opportunity to generate international legitimacy to the German preferential contracts. In as much as the mandate powers used Geneva to talk about governing territories differently, while in fact empirical evidence reveals no difference in former colonial governance, the thesis shows that Germany's and Italy's talk at the League about "economic relief" actions only hid an nationalistic agenda of political revisionism via economic concessions.

However, despite this first success, Argentina and especially the US, which was not an official member, but as the economic and financial superpower nevertheless quite involved in the League's economic and financial work, opposed the German preferences. The American countries, which had been both up to 1929 major trading partners of Germany and Italy, worried that the preferential system Germany had implemented in its commercial contracts with Hungary and Romania would create an "economic bloc" of a few European countries, which could close off to competition from overseas and stir up tensions on the recently pacified continent. The US and Argentinean opposition stopped the initiative at the League, but it also triggered Fascist Italy to create a hidden preferential system with Austria and Hungary, which officially complied with the requirements of the MFN clause, and which therefore were meant to prevent international retaliation.

Berlin and Rome were well informed about the needs of the countries in crisis because they participated or, as in the case of the financial committee's president, Fulvio Suvich, even led the League's financial oversight of national budgets, which reached unprecedented levels in the early 1930s. What was more, the governments of Nazi Germany (and to a lesser extent Fascist Italy) still used the League for their countries reputation in Southeastern Europe when tensions arose in the crisis countries over accusations that the League interfered with domestic affairs. After German officials had participated in financial oversight and the implementation of reform programs, they did not miss the opportunity to act as spokespersons for national sovereignty in Southeastern Europe once Nazi Germany retreated from the League.

In 1933/34, at a time when the AA stated that, "Germany and Italy are on every market of the Southeast fierce rivals",<sup>1368</sup> Italy strengthened its relations with Hungary as well Austria, and Germany approached Hungary as well as Yugoslavia. Both attempted a similar policy that was informed by the discussions at the League of Nations on commercial preferences for the

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<sup>1367</sup> Pedersen, 'The Meaning of the Mandates System', p. 560.

<sup>1368</sup> AA, 23 Jan 1933, PA-AA, R30.297.

countries in economic crisis and that tried to circumvent the restrictions determined by the MFN clause. As this thesis showed in Part III, the similarity derived from transfers of commercial policies. Fascist Italy's Brocchi contracts served as a template for the commercial contract Nazi Germany signed with Hungary. The mastermind behind the transfer, the foreign trade expert Karl Schnurre, did not simply copy the Italian policy. He adapted it to Germany's commercial capacities and improved its efficiency. Schnurre's concept used the blocked German funds abroad to finance the preferences granted to trade partners. With its innovative character, the German-Hungarian commercial contract marked, according to more recent research, the launch of Nazi Germany's commercial expansion into Southeastern Europe.<sup>1369</sup> The older literature had already identified the interrelational impact of the German-Hungarian contract and the Italian tripartite agreements with Austria and Hungary.<sup>1370</sup> However, it is only by the methodological approach of this thesis, combining an institutional analysis with the study of transfers, that historiography reaches an understanding of the transnational construction of the instruments and their close connection to the League of Nations discussions on economic rescue.

The commercial instruments modelled on the Italian template became an important part of Germany's commercial contract with Hungary. Moreover, they were also immediately thereafter applied in the new commercial contract Nazi Germany signed with Yugoslavia, which not only had been one of Italy's most important markets, but also the central target of fascist revisionist policies, which intended to use economic concessions for political leverage. While the financing method designed by Schnurre became common practice in Nazi Germany's clearing agreements, by which Germany constructed its greater economic area (*Großwirtschaftsraum*), the Italian government was not able to adapt the method for Italy's commercial framework.

Furthermore, the Italian example provided not only a template for the formulation of commercial contracts, it also inspired policies governing the infrastructural connection of the Southeastern European markets with Germany and the world. The competition between the German ports of Hamburg and Bremen and the Italian ports of Trieste and Fiume to become the exclusive hub of Southeastern Europe triggered the German adaptation of an Italian transportation subsidy scheme. Together with geographical advantages, such as the inland

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<sup>1369</sup> The claim that the commercial contracts formed the launch of Nazi Germany's commercial expansion stands against an opinion in older research, which regarded Hjalmar Schacht's "new plan" as the decisive institutional milestone. Cf. Kube, *Pour le mérite*, p. 74.

<sup>1370</sup> Kaiser, *Economic diplomacy*, p. 74.

waters joining the Danube (the “artery of the continent” according to Péter Esterházy) with the North Sea, Southeastern Europe’s trade flowed increasingly via Germany.

With its wider spatial focus, the thesis was able to show that the situation in Southeastern Europe was intertwined with the Eastern Mediterranean, which has been neglected by research with an often all-too-narrow concept of Europe. The competition between the German and Italian ports reached a level where Hamburg and Bremen tried to lure away from Trieste the beneficial maritime traffic between Southeastern Europe and the Eastern Mediterranean, despite the fact that the latter was much better located, and traditionally the hub of choice for products from the region. The case of Turkey provided another example of the inspiring nature of Fascist Italy’s foreign economic policy. In 1929 Italy still had a very prominent position among Turkey’s trade partners, importing more than Germany and exporting only slightly less (see Table 12). Yet, the Italian-Turkish *modus vivendi* on trade and shipping was deemed a model for Germany and stands at the beginning of a development resulting in marginalisation. Taking together the various examples from Southeastern Europe and the Eastern Mediterranean, the thesis argues that Nazi Germany after 1933/34 was economically harvesting what Fascist Italy had previously sown.

In dealing with the variations of German-Italian rivalries in different country contexts, the thesis could demonstrate how the countries in the “periphery” were able to benefit from their position as woody complementary economies. In particular, the case of Hungary has shown that Budapest was not only an autonomous actor promoting the conclusion of the Brocchi contracts, and the preferential contract with Germany, thus continuing an agenda which previously had made it a firm supporter of preferences at the League of Nations. Budapest also still showed satisfaction with the economic performance of the preferential systems, when precisely this was negated on behalf of Italy’s very own foreign trade experts. The thesis thus provides support for the argument that Fascist Italy’s and Nazi Germany’s economic expansion were in the 1930s not unilaterally exploiting.<sup>1371</sup> The stance that Nazi Germany transformed all the countries of Southeastern Europe into „informal colonies“ without any influence on trading conditions, formulated mostly in the older

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<sup>1371</sup> Cf. for the case of Nazi Germany, A.S. Milward, ‘The Reichsmark Bloc and the International Economy’, in G. Hirschfeld and L. Kettenacker, eds., *Der “Führerstaat”: Mythos und Realität: Studien zur Struktur und Politik des Dritten Reiches* (Stuttgart, 1981), pp. 377-413. For a critical reflection on Milward see, for instance, B.-J. Wendt, ‘Südosteuropa und der nationalsozialistischen Großraumwirtschaft’, *ibid.* pp. 414-428. It seems that Aldcroft, too, argues against unilateral exploitation, although he adds that the immediately following political and military domination of Southeastern Europe in World War II puts into perspective the picture of early economic advantages. See Aldcroft, *Europe’s third world*, p. 63.

literature, but still present in recent works, must therefore be called into question for the period under investigation.<sup>1372</sup>

Attempts to tackle the German-Italian commercial conflicts in third-party markets existed, but they were bound to fail because, firstly, there was no consensus on which kind of co-ordination was favoured, and secondly, official calls for co-ordination served often to win time in order to secretly create a better negotiating position. Regarding the type of co-ordination, Mussolini's suggestion to distribute the markets of Southeastern Europe according to industries and each country's economic specialisation were not convincing in Berlin. The AA feared that a voluntary retreat, for instance, for the benefit of the Italian textile industry, would in the end only expose crucial markets to political opponents (either France or one of its allies of the Little Entente). This example highlights how little consideration Nazi Germany's foreign trade experts gave to Italy's commercial capabilities and interests.

Such an ignorant attitude was even more apparent in the geographical distribution of markets. Contrary to all the ringing declarations that Albania in Southeastern Europe, and the Eastern Mediterranean as a whole, would be part of Italy's *spazio vitale*, Germany's massive commercial expansion after 1933 showed a lack of concern for its future political ally. Arguments in favour of institutionalised economic co-ordination, for instance, in the form of a customs union, which would provide for greater bargaining power in dealing with other economic powers, came to the negotiation table. The tendency, however, to use these arguments to veil policies concerned with national economic interest only, undermined confidence in these instruments and provides a cautionary example for present-day economic co-ordination in Europe.

The discussed case of the oil consortium BOD in Iraq has revealed that a lack of trust also hampered private business initiatives. The Italian fears of a reinvigorated project of imperial Germany, the *Bagdad-Bahn*, built on deep-rooted mistrust dating back to the times of German industrial domination in the late nineteenth century. German diplomatic and economic elites failed to address the lack of trust, thereby evading their share of responsibility for failed attempts at economic co-operation.<sup>1373</sup> Attempts in other business sectors such as

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<sup>1372</sup> For this position see, for instance, Thörner, *Der ganze Südosten*, p. 435.

<sup>1373</sup> Given the public responses to the financial crisis in Europe after 2008, it can even be argued that the protective attitude of Italy's big business against their German counterparts was quite persistent. See, for instance, the open letter of Italian industrialists to German Chancellor Angela Merkel in June 2012, see F. Reinbold, 'Italienische Firmen rechnen mit Deutschland ab', *Spiegel Online*, 15 Jun 2012, available: <<http://www.spiegel.de/politik/ausland/brief-von-italienischen-unternehmer-wirft-deutschland-egoismus-vor-a-839111.html>> (retrieved 16 Jul 2015).



artificial fibres, chemicals or cars failed because in the climate of economic nationalism, companies, which were potentially of strategic importance for their national regimes demanding armament and export revenues for import of raw materials, did not show interest in cross-border co-ordination.<sup>1374</sup> At times, this could even mean the curtailing of established transnational production networks, to the detriment of both parties.<sup>1375</sup>

The supplanting of Italy's commercial status in the "shared periphery" also helps to put into perspective the development of the German-Italian bilateral commercial relationship as described in Part I. After World War I had toppled the leading position of the German market for Italy's foreign trade, the period between 1929 and 1936 marked a time of restoration of this rank. The widespread fascination of political and economic elites for Fascist Italy's corporatist reforms – not only in Nazi Germany, but already in the late Weimar Republic – certainly promoted an intensification of economic relations. In spite of the Great Depression, Germany's and Italy's relative importance as trading partners increased significantly, largely through Italian coal orders in Germany and German imports of Italian agricultural products. Moreover the fascist regime's autarkic measures to foster Italian industrial development in sectors identified as "strategic" reached new levels in the protectionist climate after the world economic crisis, and reduced Germany's once very lucrative exports of manufactured goods. The changing composition of German exports, with constantly falling shares of finished goods and rising coal deliveries (which eventually became a supply bottleneck of the "Axis" at war),<sup>1376</sup> calls into question the appraisal found in the older, more cursory literature of the commercial relationship as "very complementary".<sup>1377</sup>

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<sup>1374</sup> Cf. for an analysis of the raw material supply of the German-Italian war machine, for instance, F. Minniti, 'Le materie prime nella preparazione bellica dell'Italia (1935-1943)', *Storia contemporanea*, 17 (1986), pp. 5-40; F. Schinziger, 'Kriegsökonomische Aspekte der deutsch-italienischen Wirtschaftsbeziehungen 1934-1945', in F. Forstmeier and H.-E. Volkmann, eds., *Kriegswirtschaft und Rüstung: 1939-1945* (Düsseldorf, 1977), pp. 164-181.

<sup>1375</sup> While beyond the scope of this thesis, the German and Italian experience in the interwar period provide highly interesting cases of how businesses seized opportunities created by the regimes' new strategic orientations even against traditional economic logic. How companies attempted to gain relevance for the regulator of a market opens up an interesting branch for historical research with high relevance for current debates on the relationship between large corporations and the state. For instance, when the US government decides to make counterterrorism a top priority of its strategy, and opts for massive data-mining to implement its strategic goals, it could be interesting for companies with a lot of valuable data to share it with the government. Even though it undermines its very own business model and reputation on foreign markets, it thereby increases its strategic value, which the state as the regulator of the markets might want to take into consideration. Cf. G. Greenwald, 'Microsoft handed the NSA access to encrypted messages', *The Guardian*, 12 Jul 2013, available: <<http://www.theguardian.com/world/2013/jul/11/microsoft-nsa-collaboration-user-data>> (retrieved 16 Jul 2015).

<sup>1376</sup> Cf. M. König, *Kooperation als Machtkampf. Das faschistische Achsenbündnis Berlin-Rom im Krieg 1940/41* (Köln, 2007), p. 120.

<sup>1377</sup> Höpfner, *Der deutsche Außenhandel*, p. 322.

With a careful reconstruction of the institutional milestones leading to the commercial “Rome-Berlin Axis”, the thesis was able to show how the Italian negotiators fought for their domestic industries, and in particular for better facilitation of Mediterranean agricultural products that fulfilled no existential need in Germany. That the German authorities, in spite of the dire foreign exchange situation and the radical autarkic efforts, granted such beneficial access to these Italian goods illustrates that it was not primarily economic considerations that caused the extension of bilateral commerce. It was rather a politically motivated attempt to placate a crucial revisionist ally. Therefore, it would not be accurate to describe Germany’s rapidly growing importance in trade as an act of “conquering”.<sup>1378</sup> Thus, the thesis argues that Berlin did not intend to make Italy economically dependent on Germany; rather, it was the fascist government that put Italy in this position.<sup>1379</sup>

The evidence provided in Part III suggests that in the markets of Southeastern Europe and the Eastern Mediterranean, Nazi Germany was not nearly as accommodating as in the bilateral commercial relationship. Quite the opposite. Part I already indicated that initially Hjalmar Schacht’s “new plan” showed less consideration for Italy’s commercial interest compared to Southern Europe’s, and that only Italy’s vigorous defence in the commercial negotiations leading to the 1934 clearing agreement, which at times even threatened the political rapprochement, secured the beneficial access to the German market. The German initiatives at the League of Nations as covered in Part II support the argument that Fascist Italy was merely a suitable ally for the ultimate goal, that is, greater political influence on the countries in Southeastern Europe, while no heed was paid to Italy’s commercial interest in the region. The actual development of Nazi Germany’s commercial expansion, then, not only burdened Italian commercial positions on every market; it also, as in the case of Palestine, which was one of the few remaining markets with high economic growth and rising import requirements for finished products during the early 1930s, caused a replacement of Italian goods on the German market.

Taking together the findings of Parts I and III, the thesis shows that the growing and self-inflicted dependency on Germany as a sales market for Italian agricultural products deprived resource-poor Fascist Italy of its leeway in Southeastern Europe and the Eastern

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<sup>1378</sup> H. Woller, *Geschichte Italiens im 20. Jahrhundert* (München, 2010), p. 144.

<sup>1379</sup> Nützenadel has pointed out the enormous importance agricultural export gained for the Italian balance of payments by the mid-1930s. While agricultural exports became a crucial instrument of a “neomercantilist expansion strategy”, the Italian population increasingly suffered from a deteriorating food situation. See A. Nützenadel, *Landwirtschaft, Staat und Autarkie: Agrarpolitik im faschistischen Italien (1922-1943)* (Tübingen, 1997), p. 422.

Mediterranean. For instance, in order to guarantee agricultural exports, Rome shifted more and more of its coal orders to Germany. Thereby, it forfeited the possibility of ordering Turkish coal – as had been initially planned – to stimulate demand for Italian direct investments in Turkish mines. Even worse, in accordance with the bilateral logic of trade, reduced Italian orders from Turkey also meant fewer Turkish orders from Italy. In this way, a major sales market for Italian industrial output gave way to a flood of German products. The case of Bulgaria provides more evidence for the selling out of Italian commercial positions. Italy used the triangular composition of debt to pay for its coal orders in Germany while trading in its financial assets in Bulgaria. Overall, it can be argued that to some extent Italy had to sell its assets in Southeastern Europe to Germany in order to pay for its self-inflicted, growing reliance on the German economy.

In light of the thesis' twofold perspective, interrelating the international dimension of the German-Italian economic relationship with the bilateral dimension, it seems difficult to entirely follow Tattara's argument addressed in the preliminary conclusion to Part I.<sup>1380</sup> He has argued, with a focus on the bilateral dimension, that the clearing agreement of 1934 was a "success story" and that the Italian plans for autarchy prevailed over the German ones. In fact, considering the intentions carved out by analysing the institutional negotiations, from the German perspective the clearing was not an economic success, but a necessary compromise with an aggressively demanding, yet crucial ally. Instead, economic considerations as laid bare in the "new plan" actually favoured the resource-rich countries in Southeastern Europe. In addition, what might have been gained for Italian autarchy in the bilateral relationship was lost in the shared periphery.

At the same time, it became apparent how this development prevented Fascist Italy from formulating a coherent foreign economic policy vis-à-vis the German market. Agricultural interest was of course largely in favour of closer alignment, which offered a much higher demand for Mediterranean products than any other potential trade partner. Italian industrial interest, in contrast, felt threatened by the German industry on those markets that had become a favoured destiny of Italy's commercial expansion since the 1920s. Yet, energy for industrial production in Italy was in short supply, and therefore industrial interest was in a weak bargaining position when attacking the German-Italian alignment built on trading coal for agricultural products. In confronting the bilateral economic relationship with the

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<sup>1380</sup> Tattara, 'Power and Trade', p. 499. See also Zamagni, *Dalla periferia al centro*, pp. 340-348.

international dimension, the thesis was also able to show the incoherent Italian attitude towards economic manifestations of German anti-Semitism. Sometimes, and particularly in the bilateral relationship, Fascist Italy did not attempt to take advantage of the boycott movement against German products, as indeed happened in Southeastern Europe.<sup>1381</sup>

Nazi Germany, in this regard, was more successful in utilising its corporatist institutions to develop a coherent foreign economic policy. This assessment was even shared by Italian authorities.<sup>1382</sup> The Nazis repudiated agricultural interest groups, which, after the onset of the crisis and before 1933, had strongly opposed opening up the German market to states with agricultural surplus production such as Italy. Thus, the regime sharpened one of Germany's most important commercial weapons in the quest for foreign markets and political leverage.

What is more, Italy also faced problems in formulating a coherent foreign economic policy that integrated its various initiatives. In Part II the thesis showed that although Mussolini urged his diplomatic elite to embrace the work of the League of Nations in the name of national interest, he was not able to control a top League official such as Stoppani, who worked at times against the Italian initiatives.<sup>1383</sup> The preferences granted by the Rome protocols to Austria and Hungary reduced the financial leeway to offer similar preferences to Yugoslavia. Thus, Germany was able to take the dominant position on the Yugoslavian market that Italy had once enjoyed. Moreover, the attempt to refinance and balance the concessions granted with the Rome protocols by trading with the Eastern Mediterranean was placed at risk by Nazi Germany's growing share, especially in the Turkish market. Finally, the Italian invasion of Ethiopia undermined Italy's reputation in the Arab world and the attempt to leverage anti-colonial resentments, thus leaving this ideological trump card for foreign economic propaganda to Nazi Germany.

The difficulties in formulating a coherent foreign economic policy in general, and particularly vis-à-vis Germany, also adds weight to the thesis' argument that when the "Axis" was declared in 1936, it was not the result of collaboration among equals, but rather subordination, with Italy taking a minor role. Witnessing the loss of Italy's export markets, the

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<sup>1381</sup> Therefore, the thesis contributes to the debate regarding the degree to which the fascist regime was anti-Semitic, and what goals it pursued with anti-Semitic reform especially with regard to Nazi Germany. Cf. T. Schlemmer and H. Woller, 'Der italienische Faschismus und die Juden', *Vierteljahrshefte für Zeitgeschichte* 53, 2 (2005), pp. 165-201.

<sup>1382</sup> IB Berlino to Sottosegretario di Stato per gli Scambi e le Valute, 18 Mar 1936, ASMAE, AC, Germania, 1936, pos. 1-6.

<sup>1383</sup> Yet, this thesis provides evidence that he was not always an internationalist and liberal counterpart to the Duce. For this position see Clavin and Wessels, 'Transnationalism and the League', p. 482.

*polizia politica* in Rome deplored that “the economic power of a nation, its wealth, depends essentially on the development of its foreign trade, and our policy, instead that it encourages and increases, is directed at eliminating”.<sup>1384</sup> The Milan branch of the *polizia politica* reckoned later that, “our economic and financial situation is not exactly brilliant, and we inevitably need to approach Germany”.<sup>1385</sup> That from a German perspective as well the relationship turned into subordination is backed by Ulrich von Hassell’s assessment of attitudes among German business circles where arrogance and disregard for the Italian partner prevailed.<sup>1386</sup> What is more, the analysis of the *Fiera di Bari*, Fascist Italy’s major propagandistic effort to become a Mediterranean “core”, indicates that also in German government circles Fascist Italy’s self-imposed position was not respected. For the AA, the *Fiera di Bari* was not an attempt to strengthen commercial ties between an industrialised Italy and the Middle East, but nothing more than a marketplace to link the agricultural Apulian hinterland with the German market.<sup>1387</sup>

When the “Rome-Berlin Axis” was proclaimed in the summer 1936, it was clear that Italy had lost the quest for the markets of Southeastern Europe and the Eastern Mediterranean. Germany was able to offer these countries its bigger domestic markets, displayed the ability to implement ideas developed in Italy more efficiently than the creators and benefited from the repercussions in the bilateral economic relationship, which saw a rising Italian dependency with the German economy. Suvich’s demand for a vigilant and permanent defence of Italian interests in Southeastern Europe in February 1936 – as mentioned at the beginning of this conclusion – had to surrender in the very same year to economic reality.

The analysed development between 1929 and 1936 helps us to understand the imbalances of the “Rome-Berlin Axis” at war; for instance, the tide of Italian workers that moved to Germany from 1938.<sup>1388</sup> Ultimately, there was not much more the Italian economy could offer to the then-unequal partner than its labour. In accordance with the politics of economic nationalism, and the greater economic area that the Nazis constructed in Central Europe during World War II, there was only room for one industrialised core, thus reducing Italy to a subsidiary economy in the southern periphery. Needless to say, this was not

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<sup>1384</sup> Polizia politica Roma, Roma, 27 Feb 1935, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 177.

<sup>1385</sup> Polizia Politica Milano, 2 Dec 1938, ACS, Ministero dell’Interno – Divisione Polizia Politica, busta 44.

<sup>1386</sup> Von Hassell, *Südosteuropa*, p. 33.

<sup>1387</sup> GK Neapel to AA, 9 Oct 1933, PA-AA, R241.476; RWM to AA, 23 Aug 1934, PA-AA, R241.476.

<sup>1388</sup> Cf. B. Mantelli, ‘Italians in Germany, 1938-45: an Aspect of the Rome-Berlin Axis’, in R.J.B. Bosworth and P. Dogliani, eds., *Italian fascism: History, memory, and representation* (New York, 1999), pp. 45-63; Rieder, *Deutsch-italienische Wirtschaftsbeziehungen*, pp. 194-212.

appreciated by Italian industrialists, a notion that is substantiated by numerous examples of Italian entrepreneurs working against the official political ally intending to extend its war production into Italian facilities.<sup>1389</sup> What was more, even a top official of Fascist Italy's economic administration such as the "foreign exchange dictator" Guarneri discarded emphatically the idea presented by Economics Minister Walther Funk to create a common "Reichsmark-area" together with Southeastern European states and to "enhance Italy's agricultural production" while encouraging Germany's industrial production.<sup>1390</sup> Therefore, the development between 1929 and 1936, when the economic foundations of the "brutal friendship" were laid out, provides for a structural explanation of the inherent inconsistencies and the bad economic performance of the German-Italian relationship under the banner of fascism.<sup>1391</sup>

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<sup>1389</sup> Cf. L. Klinkhammer, *Zwischen Bündnis und Besatzung. Das nationalsozialistische Deutschland und die Republik von Salò 1943-1945* (Tübingen, 1993); M. Doria, *Ansaldo: L'impresa e lo stato* (Milano, 1989), pp. 229-238.

<sup>1390</sup> Guarneri, *Battaglie economiche*, p. 859.

<sup>1391</sup> Cf. for a substantial description of the economic deficiencies, Knox, *Hitler's Italian allies*.

# Appendix

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Fulvio Suvich

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Bulgaria General

Clearing

Commission of Enquiry for European Union

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## ***Major Actors***

(Positions held relevant to the time frame and the argument)

Eugenio Anzilotti

Director general of the department *Commercio* at the *Ministero delle Corporazioni*

Italian representative at the League of Nations

Vicenzo Azzolini

1931-1944 Governor of the *Banca d'Italia*

Alberto Asquini

Under-secretary at the *Ministero delle Corporazioni*

Bernardo Attolico

1935-1940 Italy's ambassador to Germany

Alberto Beneduce

1931 Board member of *Istituto Mobiliare Italiano*

1933 Head of *Istituto per la Ricostruzione Industriale*

Igino Brocchi

1921 Board member of the railway company *Danubio-Sava-Adriatico*

1920 State counsellor at the *Ministero degli Affari Esteri*

1925-1928 Chief of staff of Finance Minister Volpi

1929 Secretary of the Italian delegation to the League of Nations' Reparations Commission

1930 Italian expert at Bank for International Settlements' Organisational Committee

Bernhard Wilhelm von Bülow

1923-1928 Head of the department for League of Nations affairs at the *Auswärtiges Amt*

1929 Head of the department for Western and Southeastern Europe at the *Auswärtiges Amt*

1930-1936 State secretary at the *Auswärtiges Amt*

Vittorio Cerruti

1932-1935 Italy's ambassador to Germany

Bonifacio Ciancarelli

Italian representative at the Assembly of the League of Nations

Director general of the department *Politica Economica* at the *Ministero delle Corporazioni*

Antonino Cimino

1932-1944 *Banca d'Italia's* delegate in Berlin

Carl Clodius

1931 German envoy to Yugoslavia

1932-1934 German envoy to Bulgaria

1936 Department for trading politics (*Handelspolitische Abteilung*) at the *Auswärtiges Amt* (1938 deputy head of the department)

1943 Special envoy (*Sonderbeauftragter*) for commercial negotiations of the Reich

Walther Funk

1932 Chairman of NSDAP's Committee on Economic Policy

1933-1938 State secretary at the Ministry of Public Enlightenment and Propaganda

1938-1945 Germany's minister for economics

Dino Grandi

1929-1932 Italian minister of foreign affairs

1932- 1939 Italy's ambassador to the United Kingdom

Max Hahn

1931-1939 Managing director at the *Mittleuropäischer Wirtschaftstag*

Christian August Ulrich von Hassell

1930-1932 German envoy to Yugoslavia

1932-1938 Germany's ambassador to Italy

1940-1944 Board member of *Mittleuropäischer Wirtschaftstag*

Guido Jung

1927-1932 President of *Istituto nazionale per l'esportazione*

1932-1935 Italy's finance minister

Herman Göring

1935 Commander-in-chief of the *Luftwaffe*

1936 Plenipotentiary of the Four Year Plan

Felice Guarneri

- 1920 High-ranking official at *Confindustria* and *Associazione nazionale società per azioni*
- 1931 Board member of *Istituto mobiliare italiano*
- 1935 Under-secretary of state responsible for trade and foreign exchange
- 1937 Minister of trade and foreign exchange
- 1940 President of *Banco di Roma*

Ludwig Kastl

- 1925 Managing director of the *Reichsverband der deutschen Industrie*
- 1929-1932 Delegate to the League of Nations

Paul Kempner

- 1922-1938 Partner at the bank *Mendelssohn & Co*
- 1932-1933 Member of the League of Nations' Financial Committee

Clemens Lammers

- Board member of *IG Farben*
- Representative of the German industry (*Reichsverband der deutschen Industrie*)
- German delegate to CEEU's Sub-Committee of Economic Experts
- German delegate to the Economic Committee of the League of Nations
- Several other board mandates in Germany and functions at the League of Nations

Giuseppe De Michelis

- 1920-1936 Italian representative at the International Labour Organization
- 1925 Appointment as president of the International Institute of Agriculture
- 1928 Nomination as Italian senator
- 1930-1931 Italian delegate to the League of Nations
- Italian member of CEEU's Sub-Committee for Economic Co-ordination

Angelo Di Nola

- Italian delegate to League of Nations' Economic Committee

Konstantin von Neurath

- 1921-1930 Germany's ambassador to Italy

Dino Olivetti

- 1910-34 President of *Confindustria*

Hans Posse

- 1924 Head of the foreign trade department at the *Reichswirtschaftsministerium*
- 1927–1933 Head of German delegations concluding commercial negotiations
- 1932–1933 German delegate to League of Nations' Economic Committee
- 1933–1938 State secretary at the *Reichswirtschaftsministerium*
- 1938–1945 State secretary for “special tasks” at the *Reichswirtschaftsministerium*

Giuseppe Renzetti

- 1925–1927 Italian consul in Leipzig
- 1929 Head of the Italian chamber of commerce in Berlin
- 1929 Head of the association of Italian chambers of commerce in Germany
- 1935 General Consul in San Francisco
- 1936 General Consul in Berlin

Adelchi Riccardi

Italian commercial attaché in Berlin

Karl Ritter

- 1922–1936 Head of the departments for commerce and reparations at the *Auswärtiges Amt*
- 1936–1937 Head of the department for trading politics at the *Auswärtiges Amt*

Hjalmar Schacht

- 1929 Head of the German delegation concluding the Young Plan
- 1930 Resignation as president of the *Reichsbank*
- 1933 Reinstatement as president of the *Reichsbank*
- 1934 German economics minister
- 1935 Plenipotentiary for armament
- 1937 Resignation as economics minister and plenipotentiary for armament

Karl Schnurre

- 1930 Diplomat at the German embassy in Budapest
- 1936 Leading position at department for trading politics at the *Auswärtiges Amt*
- 1942 Head of the department for trading politics at the *Auswärtiges Amt*

Carl von Schubert

- 1930–1932 Germany's ambassador to Italy

Alfred Sohn-Rethel

- 1931–1934 Economist at the *Mitteleuropäischer Wirtschaftstag*
- 1934–1936 Director of the Egyptian chamber of commerce in Germany



Alberto de Stefani

1922-1925 Italy's minister of finance

195-1943 Member of the Grand Council of Fascism

Pietro Stoppani

1923 Italian official at the League of Nations

1930 Head of the Economic Section of the League of Nations

Gustav Stresemann

1923-1929 Germany's foreign minister

Bonaldo Stringher

1928-1930 Governor of *Banca d'Italia*

Fulvio Suvich

1926-1932 Under-secretary of state at the *Ministero delle Finanze*

1931 Commissioner for tourism

1932 President of League of Nations' Financial Committee

1932-1936 Under-secretary of state at the *Ministero degli Affari Esteri*

Paolo Thaon de Revel

1935-1943 Italy's finance minister

Ernst Trendelenburg

1923-1932 State secretary at the *Reichswirtschaftsministerium*

1930-1932 Germany's acting economics minister

1932-1933 Under-secretary general of the League of Nations

1934 Chairman of the board of *Vereinigte Industrieunternehmen*

1935 Head of *Reichsgruppe Industrie*

1935 Board member of the International Chamber of Commerce

Giuseppe Volpi

1925-1928 Italy's finance minister

1934-1943 President of *Confindustria*

## *List of Abbreviations*

AA	Auswärtiges Amt
AC	Affari Commerciali
ACS	Archivio Centrale dello Stato
ADAP	Akten zur Deutschen Auswärtigen Politik
AI	Ambasciata d'Italia
ANFDAI	Associazione Nazionale Fascista dei Dirigenti di Aziende Industriali
AP	Affari Politici
ASBI	Archivio Storico della Banca d'Italia
ASMAE	Archivio Storico Diplomatico del Ministero degli Affari Esteri
BArch	Bundesarchiv
BCI	Banca Commerciale Italiana
BNB	Bulgarian National Bank
CCC	Civilian Conservation Corps
CEEU	Commission of Enquiry for European Union
CI	Consolato Italiano
CoGeFaG	Commissario Generale per le Fabbricazioni di Guerra
DB	Deutsche Botschaft
DDI	Documenti Diplomatici Italiani
DK	Deutsches Konsulat
DOS	Department of State
DOSAG	Donau-Save-Adria-Eisenbahn Gesellschaft
DVK	Deutsche Verrechnungskasse
EC	Economic Committee of the League of Nations
FC	Financial Committee of the League of Nations
fasc.	fascicolo
FRUS	Foreign Relations of the United States
GK	Deutsches Generalkonsulat
HAV	Hanseatischer Abwehrverband
IIA	International Institute of Agriculture
IMI	Istituto Mobiliare Italiano

INE	Istituto nazionale per le esportazioni
Istcambi	Istituto nazionale per i cambi con l'estero
LI	Legazione Italiana
LON	League of Nations
MAE	Ministero degli Affari Esteri
MAF	Ministero dell'Agricoltura e delle Foreste (denomination differed)
MCom	Ministero delle Comunicazioni
MCorp	Ministero delle Corporazioni
MFN	Most-favoured-nation
MWT	Mitteleuropäischer Wirtschaftstag
PNF	Partito Nazionale Fascista
RAD	Reichsarbeitsdienst
RDGEA	Reichsverband des Deutschen Groß-, Ein- und Ausführhandels
RDI	Reichsverband der deutschen Industrie
RfD	Reichsstelle für Devisenbewirtschaftung
RFM	Reichsfinanzministerium
RLM	Reichsministerium für Landwirtschaft
RWM	Reichswirtschaftsministerium
SIA	Società Italiana Alluminia
SIDA	Società dell'Aluminio
VDESTI	Verein Deutscher Eisen- und Stahl-Industrieller